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ROYAL COMMISSION ON BANKING AND FINANCE

Hearings held at Regina, Saskatchewan on Friday, March 23rd, 1962.

Chairman

Secretary

Joint Secretary

Netherсut & Young
Toronto, Ontario

Regina, Sask.
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ROYAL COMMISSION ON
BANKING AND FINANCE

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THE COMMISSION

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Chief Justice of Ontario
Toronto, Ontario - Chairman

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Vice-Chancellor
Queen's University
Kingston, Ontario

Mr. Gilles Mercure - Secretary

Mr. H.A. Hampson - Joint Secretary

Regina, Saskatchewan
Friday, March 23, 1962.

--- On resuming at 9.15 A.M.

THE CHAIRMAN: I will call the meeting to order. We have very great pleasure once again in welcoming you before the Commission, Mr. Blakeney, and I understand you have a submission to present. I may say that the members of the Commission have all read your brief with very great interest and, if it won't be taken amiss, we feel it is an exceedingly well prepared brief and we appreciate having such excellent assistance.

SUBMISSION OF THE GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN

APPEARANCES

Mr. A.E. Blakeney	-	Provincial Treasurer
Mr. A.W. Johnston	-	Deputy Provincial Treasurer
Mr. J. Holgate	-	Solicitor, Department of the Attorney-General, Province of Saskatchewan.

HON. MR. BLAKENEY: Mr. Chairman, may I just renew the welcome which I extended yesterday and say how pleased we are to have this opportunity to present a brief to the Commission.

Our brief is in two parts: The brief proper, which is the larger blue covered book entitled "A Submission by the Government of Saskatchewan"; and a second smaller one entitled "Technical Papers Submitted by the Government of Saskatchewan". We are quite prepared to answer questions which you may have on either document. We separated them because we felt the technical papers would not be of very general interest to people other than yourself, and we may be giving the brief to other people. With respect to the mode of presentation, I have had a word with Mr. Hampson and I gather from the Chairman's remarks you have had an opportunity of going over this. I have prepared a summary which would take perhaps 45 or 50 minutes to read. There is a shorter summary included in the brief as a preface, and in the interests of saving your time, if you felt it would be appropriate, I would simply refer to the preface.

THE CHAIRMAN: Well, I think if you read the preface, that may be sufficient because as time goes on we will be developing many other aspects of the main brief.

HON. MR. BLAKENEY: Yes, that is probably the most convenient and expeditious way of doing it.

THE CHAIRMAN: The various points will come out in due course.

HON. MR. BLAKENEY: I will therefore read the summary of the brief submitted by the Government of Saskatchewan.

--- Mr. Blakeney reads summary. (See Volume 6 (a)).

I might say for a moment, sir, that this broad term "social capital" when used throughout the brief is not meant to mean capital which is devoted to bringing about desirable social ends although this may be indeed one of its results. It is not confined to that; it is used to define those projects which are normally financed governmentally. A highway, by our definition, is social capital although its sole purpose may really be to encourage economic development.

I would just like to make this point so that the emphasis is not distracted.

That, Mr. Chairman, is the summary of our brief. I think I should make clear that as you already know we will be more than happy to attempt to answer questions you may have on it. My own position is such that I have been Provincial Secretary for a very short number of months, four months or so, and so I may not be able to answer all the questions you put to me personally and many I think doubtless I will have to refer to my officials. I have a number of them here today.

On my extreme right is Mr. A.W. Johnston, the Deputy Provincial Treasurer, on my immediate left is Mr. John Holgate, Solicitor in the Attorney-General's Department who advises the Treasury Department, and the Chairman of the Saskatchewan Securities Commission, Mr. Cameron, is here and a number of the officials -- the Secretary and Director of the Provincial Community Advising and

Planning Board is here and a number of officials from the Treasury Department, the Chairman of our local Government Board which is the board regulating municipal planning, the counterpart of the Ontario Municipal Board. Mr. Heeney is here and I think we will be able to answer a few questions after a little consultation.

THE CHAIRMAN: Thank you very much, Mr. Blakeney.

On examining your brief, Mr. Blakeney, we have worked out seven headings of subject matter which will be dealt with by different members of the Commission who have made a special study of those aspects of the brief. All the Commissioners, of course, will ask questions if they so desire on any number of the subject matters but that is the way we decided to handle this brief.

The first subject matter is general philosophy, underlying philosophy, junior government responsibilities and the impact of financial policy on the economy and the sections of the brief which deal with this matter are paragraphs 1 to 27 and 133 to 150. Dr. Mackintosh will lead the discussion on this aspect of the problem.

DR. MACKINTOSH: Mr. Chairman, I have a few comments and questions on these parts of the brief. I am not sure that I am prepared to discuss the philosophy of it but we have noted the very broad view which the Government of Saskatchewan wishes the Commission to take of its already broad terms of

Planning Board is here and a number of officials
from the Treasury Department, the Chairman of our
Local Government Board which is the board regulating
municipal planning, the chairman of the Ontario
Municipal Board. Mr. [illegible] is here and I think
we would be able to arrange a few questions after
[illegible].

THE CHAIRMAN: Thank you very much, Mr.
Blakeley.

As [illegible] Mr. Blakeley,
as [illegible]
which will be [illegible]
Commission [illegible] have [illegible] of these
aspects of [illegible] the [illegible],
course, [illegible]
[illegible]
we decided [illegible].

[illegible]
[illegible]
[illegible]
[illegible]
[illegible]
[illegible]

[illegible]: Mr. Chairman, I have
a few comments [illegible] of the
brief. I cannot [illegible] to discuss
the philosophy [illegible] the very
broad [illegible]
the Commission [illegible]

reference. Indeed, those terms are so widely drawn that I think we will need some caution if we are to produce a useful and foreseeable report. I would broadly accept the fact or contention that governments are now unavoidably concerned and to a degree responsible for policies which are designed to promote economic growth and stability and the achievement of social ends but I would add social ends which are deemed sufficiently desirable by the electorate that they are willing to pay to achieve them. We have not yet got the degree of affluence in this country where either people or governments are relieved from the necessity of choice in these matters and that brings me to one sentence on page 8, paragraph 23. You say:

> "In the long run community consumption must be met by community contributions and this is possible only if there is a sufficient tax potential".

Would it be equally true to say "in the long run community consumption must be met by community contributions" period.

HON. MR. BLAKENEY: Yes, I think that is a valid point.

COMMISSIONER MACKINTOSH: The "sufficient tax potential" to provide the degree of community consumption which the community wants is an important consideration but it is not that which requires the balance. The balance is the necessity, that is, unless you are going to talk of a subsidized, under-

developed area.

HON. MR. BLAKENEY: Well, I think there is some element of that in the brief, the suggestion that there ought to be some equalization of certain benefits across Canada and to the extent that one area may pay more and another area less then obviously there is a subsidized area.

COMMISSIONER MACKINTOSH: Would you enlighten me on a question of fact? I am out of touch with some of these things. You make reference to the discrepancy in the provincial shares of income and estate taxes on page 8, $45 per capita in Ontario, $20 in Saskatchewan. To what degree do the federal equalization payments equalize the yields from personal income, corporation, estate or succession duty taxes?

HON. MR. BLAKENEY: Again I may be corrected by my officials but my understanding is that the new proposal will bring them up to the Canadian average so that to that extent they are equalized. The point here is if any province wished to raise more money by the application of corporation taxes and income taxes, suppose that Newfoundland and Ontario each wanted to raise $10 per capita to do any of these things, to promote social capital, to encourage economic development or to do some countercyclical financing, the tax impact would be three times as great on Newfoundland as it would on Ontario. They would have to raise their corporation taxes 3 per cent to Ontario's 1 per cent etc. This is the point

we are seeking to put there.

COMMISSIONER MACKINTOSH: Yes, but these amounts are the amounts before equalization, are they not?

HON. MR. BLAKENEY: Yes, they are the amounts before equalization. They are the measure of what will happen if further funds need to be raised.

COMMISSIONER MACKINTOSH: In the same area I think I have another question. You made a reference and I have not the exact point to a reduction in income taxes by the national government and an increase in consumer taxes by the provinces, paragraph 26. I take it your argument that this is not a of the province's choice is that the below average provinces, so to speak, have less scope. Also does your reference imply that this is an undesirable and inequitable change in taxes?

HON. MR. BLAKENEY: Yes, I think it is our position that the only thing a province can do to raise money is apply -- virtually the only way it can do it is apply sales tax of one kind or another. I think all of us know where provincial revenues come from -- sales tax, taxes on liquor and gas tax which is just another type of sales tax and motor licensing. That is perhaps not a sales tax but it is awfully close to one. These are almost all of them regressive in their application. Sometimes you maybe able to make them proportional but that is about the best you can do. I do not know how

a province could tax progressively. It is true, the income and corporation taxes do allow a little room but very rarely. We think it is a questionable public development to see the taxes which can be borne progressively such as corporation, income and othertaxes of that nature drop and all the sales taxes rise.

COMMISSIONER MACKINTOSH: I think you will find some governments, if they had a say in the development of a stabilization policy, would depend a good deal more on this type of taxes than a graduated income tax because of its penalities to some degree on investment. I do not make any issue of this.

HON. MR. BLAKENEY: I am sort of aware of this. You look at West Germany's tax structure and you will see perhaps 75 per cent of it borne out by consumer taxes of one kind or another rather than income or corporation tax. I would not argue that this was all that undesirable if we had the type of evenly developed economy that Sweden or West Germany have where they just do not have booms and busts to the extent that our economy has had.

THE CHAIRMAN: How do you know they won't?

COMMISSIONER MACKINTOSH: What you mean is they have had a boom but not yet a bust.

HON. MR. BLAKENEY: Well, if we could get a 15 year boom we would be reasonably happy.

COMMISSIONER MACKINTOSH: You referred to the great requirements of provincial and municipal governments. Has your government as a matter of fact

prepared projections of the requirements of the province and the municipalities, say, over the next five years, or anything of this kind?

HON. MR. BLAKENEY: I think I would have to say no to that. We have done some work on this. The Continuing Committee on Local Government which we had did a fair amount of work and helped to project the requirements of municipal governments which are the fastest rising governments, with the most fastly rising capital requirements and they have done a great deal of work on this. We have some projections which we feel have been done in the field of education and some that we feel we have done for municipal governments but we think they are so unreliable that we would not want to say we had done these.

COMMISSIONER MACKINTOSH: What would you say to the superficial comment that your ability to reduce your net debt from $145 million to $25 million, or thereabouts, would indicate you have been doing pretty well?

HON. MR. BLAKENEY: Well, it indicates two or three things. Firstly, some of that was cancellation of relief debt. Secondly, it indicates that we have had reasonably good times up from the war to 1957, maybe. Certainly, it indicates a willingness to tax, and if other governments have not been able to reduce their net debt accordingly, it may be because they have been unable to tax or unwilling to tax, and we would suggest, for some of them, it has been the latter. We would suggest we

[illegible] occupations [illegible] the requirements of the [illegible] say, over the next five years, [illegible] of this kind?

HON. MR. [illegible]: I think I would have to say no to that. We have done some work on this. The Continuing Committee on Local Government which we had did a fair amount of work and helped to project the requirements of municipal governments which are [illegible] the most [illegible] and they have done a good deal of work on this. We have some projections [illegible] in the field of education and some [illegible] we have done for municipal governments, but [illegible] they are so [illegible] that [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] million [illegible] [illegible], would indicate you have [illegible]

[illegible] Well, it indicates two [illegible] [illegible] some [illegible] of [illegible] cost. Secondly, it indicates that we have [illegible] times up [illegible] [illegible] Secondly, it indicates [illegible] [illegible], and if other governments have not [illegible] but [illegible] it may be [illegible] [illegible] [illegible], for some of [illegible]

have demonstrated a willingness to tax in order to get our net debt down, and we have run consistent budgetary surpluses. We do not apologize for it. We say it has been a strain on the economy, but we think it was worthwhile. We have an economy which, when you have good years you had better take your money out, in Saskatchewan, because there may be other problems.

COMMISSIONER BROWN: I have a couple of questions, and the first one is to clarify this business of equalizing tax potential: Do you mean equalizing it at the top level or at the average level?

HON. MR. BLAKENEY: Well, we find it difficult to think of average as equal. He who says he wants an average is not talking really about equality. He is saying that it is all right to have some people above the average, but not below. Obviously, we are not talking about perfect equality.

COMMISSIONER BROWN: How would you visualize this being accomplished -- by taking away from those that are above the average?

HON. MR. BLAKENEY: We would have to do it by -- if it could not be done by tax potential in the strict sense of the word, it would have to be done by federal-provincial equalization, the way it was done in 1942 or 1943 to 1957.

COMMISSIONER BROWN: You mean a complete equalization of the top level?

HON. MR. BLAKENEY: We would settle for

the average of the top two. We feel the Rowell-Sirois arguments are valid, that equalization is -- well, we just think that the incidence of these taxes is purely accidental, and it is either accidental or as a result of national policies and we do not feel that Saskatchewan has any right to higher taxes than has New Brunswick, because the development of the Saskatchewan economy and the development of the New Brunswick economy are not determined by either of those governments or by their inherent virtue, but by national policies, and we think that the benefit or detriment of them ought to be spread across the nation.

COMMISSIONER BROWN: Would you agree it is not entirely national policies -- for example, when national policies did not create the oil under Alberta.

HON. MR. BLAKENEY: No, that is true.

COMMISSIONER BROWN: There is natural resources as well?

HON. MR. BLAKENEY: That is right, and the particular fact that when the B.N.A. Act was formed, natural resources were said to be a provincial resource and not federal. This is an accident of constitutional history.

COMMISSIONER BROWN: Would not this by implication lead to further federal government control and less provincial government control?

THE HON. MR. BLAKENEY: This is possible, but when you talk about a national economy it is

pretty hard to carve it up into ten pieces and then say that each shall operate independently but that they shall not have the tools for operating independently; and that they cannot have provincial tariffs etc.; that firms shall be national and unions shall be national and all the tax generations shall be national, but nonetheless each little segment shall operate independently. This we find a little difficult.

COMMISSIONER BROWN: Would you carry it further and say tax potential of municipalities should be equalized?

HON. MR. BLAKENEY: This, I think, is a matter for the provinces to equalize among their own municipalities, and again I would emphasize that the word "equalization" is an approach rather than -- we don't expect to see perfect equalization, but I may say we take the position that, by and large, the tax potentials of municipalities ought to be equalized. Our school grants are paid out on the basis of equalizing, and this is far and away the largest payments we make out to local governments, and this is a principle which we would endorse.

COMMISSIONER BROWN: You do carry it out with your own municipal financing?

HON. MR. BLAKENEY: By and large. We don't right across the piece. Some of them are grants which are for a particular project, but by and large our school operating grants are paid out on an equalization basis; school capital grants are paid

out on an equalized basis; some of the municipal grants are too -- I am not too familiar with them.

COMMISSIONER BROWN: Education is a particular provincial jurisdiction, and I think this is fairly general nowadays, that education is equalized, as far as possible.

HON. MR. BLAKENEY: Yes.

COMMISSIONER BROWN: The other point is, if you could give us the summary of your net debt position which is now down to $25 million.

HON. MR. BLAKENEY: Yes, I think we have one here. By a summary do you mean ...?

COMMISSIONER BROWN: A reconciliation.

HON. MR. BLAKENEY: A reconciliation with the gross debt figure?

COMMISSIONER BROWN: Yes.

HON. MR. BLAKENEY: Yes, very well. We will take it at March 31, 1961, and we have a ---

COMMISSIONER BROWN: Perhaps it would save reading it out if you just filed it with the secretary.

HON. MR. BLAKENEY: Oh, certainly, yes. By and large, we take our gross debt, funded debt and treasury bills, and we take up our sinking fund, which is standard practice, and take off our cash and equivalents of cash, meaning working capital and advances, and the big deductions are the two utilities, the Saskatchewan Power Corporation and the Saskatchewan Telephone Corporation. There are some other smaller deductions. We can file this

with the Commission.

COMMISSIONER BROWN: Thank you.

COMMISSIONER MACKINTOSH: If we could proceed with Section 4, on page 47, I notice your statement there that in 1961 the Canadian economy could have produced approximately $3 billion more than was produced: How is this calculated?

HON. MR. BLAKENEY: I think we probably relied upon the calculations of some others in this.

COMMISSIONER MACKINTOSH: I was just curious as to where the figure came from.

HON. MR. BLAKENEY: We picked it, really, out of some lectures by Professor Harry Johnson, Professor of Economics at the University of Chicago when he was up at Carleton, and this was $2½ billion or $3 billion -- $3 billion was his calculation.

COMMISSIONER MACKINTOSH: I am afraid I cannot get any further into the sources of it, then. We will accept the fact that more could have been produced under favourable circumstances.

HON. MR. BLAKENEY: Yes.

COMMISSIONER MACKINTOSH: I have noted your argument that because they now represent about half of the total government expenditures, provinces and municipalities would need to be brought into any countercyclical policy, and your further argument that this must be under the leadership and co-ordinated by the national government, and I accept this as logical, and there is the practical

aspect that many of the capital projects which are susceptible of timing or extension are of the sort which provincial and municipal governments have rather than some of the federal projects which are less, shall I say, manoeuverable.

I was looking at the figures you quoted on page 49, Table 2, and page 50, illustrating what you say is a very uneven countercyclical, which you consider inadequate during the recession. The main thing that one notices at a glance at those figures is that they go up year by year without very much reference to the business cycle, and if you want to make these cyclical you have to clip them in one or two of the boom years. I think there are no places there where they fall during the recession. You would have to make some careful statistical measurement to find out whether they rose more in recessions than in a period of expansion . I make the point there that while you say you do not notice any adequate expansion in the recession period, I equally do not notice any restraint in the peak periods. However, the statistics are rather, shall I say, coarse to draw either of these conclusions from. There is a point on which I think you might have mentioned there, in that there are a number of factors, of which the most obvious one is population increase, which exercises very compelling influences on muncipal and, to a less degree, provincial expenditures, which in a way reduces the provincial government's control over its own

area. If you look at Table 4, which appears on the next page, Professor Hood's postwar turning points, excluding the question of the lack of growth after 1957, in fact the earlier recessions are referred to there, particularly 1946 and 1948 -- well, that was covered by postwar policy -- 1953 and 1954: These recessions are very short for effective counter-fiscal policy. Do you actually think you could manoeuvre within that, particularly if you have to have a dominion-provincial conference to start it?

HON. MR. BLAKENEY: I think the latter point has certainly some degree of validity. I would like to comment on a couple of things. We would think that it is not so much the level of expenditures. It is quite possible for governmental expenditures to go up constantly or, indeed, go down constantly and still be a cyclical or counter-cyclical force. It is whether they are running surpluses or deficits, rather than the absolute level, providing they are just ppicking them off. When we look at the surpluses and deficits, we do see some swings in Table 3. I would not be disposed to argue they fully substantiate the idea we are putting across here, but in 1953 and 1954 there were some pretty decent surpluses -- $77 million.

I think the other point of the very, very short recessions or the very quick turns in the cycle is a pretty good point. If we were going to do very much about recessions of that nature we would have

to have a continuing programme, which you just turn on and off pretty easily. This may become difficult. After the war people talked about a shelf of public works which one could start up in a relatively few months. Whether this is possible or not, I don't know.

COMMISSIONER MACKINTOSH: This sort of question -- and it is a difficult question -- always reminds me of a reply which Lord Keynes gave to some people who put forward a pretty bold and exacting stabilization employment policy, and his reply was:

"Be good, sweet maid, and very clever."

There is one other comment I would make: Professor Hood's very useful table on postwar turning points, it is necessary to remind ourselves, was made after the fact, and we can now see that the turning point in the last thought was in March, 1961; but to say when the next turning point is going to be is an extremely difficult matter. I point this out merely so that we may understand the dilliculties there are, and not to counter the argument. You emphasize here, and you lay great stress elsewhere, on your concept of social capital expenditures and the implication is that you ask for grants, larger expenditures, from the national government. Have you taken into account that by design or accident the federal national budget is very highly geared in the sense that with any business recession it is very efficient at turning up a deficit without

any additional direction. This, I think, in fact limits the freedom of action of the federal government. It would not be unfair to say this is greatly increased by the succession of increases in annual welfare payments, using that very broadly, that pass through the federal budget, and we probably are going to have to make a choice. There would be difficulties in financing much larger federal deficits than are now turned up automatically.

What you are really asking for is an additional optional federal deficit, so to speak, to cover funds for social capital. Again, this is not a criticism of your submission but this is one of these difficult elements in the problem which you are working up. I do not know whether you would care to make any comment on that or whether you will leave that to the federal government to make its own explanation.

HON. MR. BLAKENEY: Well, it is certainly their problem. The welfare payments are straight transfer payments and this is a social judgment we make, it is not an economic judgment when it is appropriate to raise any taxes and re-distribute in this way.

I am not sure, I would have to look this over -- I am not sure that this re-distribution of income does a great deal to reduce the tax potential in other areas. Obviously there are some limits to federal taxes but they can put on consumption taxes too if they want to raise taxes in a way which

will not inhibit incentive. I am not now saying that these argument are all good arguments but there is some element certainly that you cannot put up corporation taxes and personal income taxes indefinitely but they have tax sources open to them as well.

COMMISSIONER MACKINTOSH: Oh yes. In the proposal for a federal-provincial committee of ministers to consider a joint programme and some co-ordination of budgets and the state of the economy at large you would feel that it would be necessary to divorce this type of consideration from the tax sharing discussions that go on from time to time?

HON. MR. BLAKENEY: Yes, I think our thought was that it would serve as a sub-committee of the continuing committee that works on tax sharing and federal-provincial fiscal relationships generally.

COMMISSIONER MACKINTOSH: I am just assuming if you mixed this up with tax sharing there won't be much time given to a discussion of possible joint policy. Tax sharing is a matter of negotiation; this should be a matter of understanding?

HON. MR. BLAKENEY: That is true. Tax sharing is a highly charged area, there is no doubt about that.

COMMISSIONER MACKINTOSH: It is probably not fair to ask you but I would like to ask about your predecessor's experience that led you to believe that a high degree of success might be possible in this kind of joint meeting?

MR. JOHNSTON: Mr. Chairman, if I could comment at Mr. Blakeney's request, the plenary conferences normally are held every five years and as the Minister says the conference is held in a highly charged atmosphere. However, in the intervals between these conferences I think it is fair to say that there seems to be a great tendency on the part of the participants to consider the problem on a national scale. It is quite possible, of course, that in the initial meetings of such a committee there would be a tendency to think of tax sharing rather than of the main purpose of the committee, but given a try on the basis of our experience it seems there is some possibility of success.

COMMISSIONER MACKINTOSH: I might go on. You rather draw attention to the exchange rate. I am not sure whether you are stating your preference for a freely fluctuating rate. If that was your view, at what level? This is at page 55.

HON. MR. BLAKENEY: Our feeling would be that we were not attempting to argue for either a fixed or a free rate. We may have failed to put across our idea but we felt that the uncertainty of the thing w as bothering us. If it was a freely moving rate or a fixed rate either of them, if it was sufficiently certain so as to inhibit speculation we think it would do the trick. I do not think we are advocating it.

COMMISSIONER MACKINTOSH: You are just drawing attention to it?

HON. MR. BLAKENEY: Yes, the possible dangers of an uncertain policy.

COMMISSIONER MACKINTOSH: You also go on and argue that we should not be too fearful of the inflow of capital or the effect on our balance of payments of a mounting total of interest and dividends payable abroad. However, I do not like either of your precedents. It is true, at least I assume it is true, that our percentage of gross national product and the total of interest and dividends is lower than it was in the 1930's. It was a heavy drag in the 1930's and I would think we might fall short of that figure and in the years before World War I those, I think, were years when there was a rapid economic growth and there seemed somewhat the same development strain but it was rather quickly removed by the circumstances of the First World War. The weight of interest and dividends in our balance of payments is a pretty considerable problem so we do tend to magnify it perhaps in our own immediate problems.

Well, Mr. Chairman, I think those are all the questions I have to ask on those parts.

HON. MR. BLAKENEY: Just on that latter point I think I would agree with Dr. Mackintosh. We did not want to convey the idea that we were fearful of foreign capital coming into Canada. We are not as fearful as some. We do not want it to be a preoccupation with this rather than with growth and to some extent in some circumstances they

can compete.

COMMISSIONER MACKINTOSH: I noticed this was the only place in the brief where you spoke with a rather misdirected approval of the 1930's?

HON. MR. BLAKENEY: If we had detected it we would have eliminated it, sir.

COMMISSIONER LEMAN: Mr. Chairman, there is one point on which Dr. Mackintosh touched a bit that I would like to try to expand somewhat if possible. There are opinions expressed by other provinces which seem to be rather at variance with your general approach to this problem. Some of them are quite fearful that there might result from your approach taken as a whole too much scrambling, if you will excuse that word, of responsibility between various levels of government so that the citizens end up by not knowing who is responsible for what and who pays for what. It is wrapped up in this talk about autonomy. You seem to be not at all fearful of that but I wish you would comment a little bit on this aspect of the problem from the point of view of any practical hope of first achieving your approach in view of the attitudes of others in the country.

HON. MR. BLAKENEY: Yes. I think perhaps we may have made it clearer in the brief that some of the things we say in this brief are really in the alternative to other proposals there really for tax equalization potential. I think we made the point earlier in the brief and I did not think we need

belabour your Commission with all the arguments in favour of an equalization of tax potential across Canada. We have argued this in other forums.

Right now we have a structure which is replete with federal conditional grants -- conditional grants for hospital schemes, conditional grants for hospital construction, conditional grants for all sorts of health programmes and for federal-provincial technical and vocational schools and the rest. The pattern is established. If the view expressed by the province or provinces you refer to is to prevail we would be happy enough to see it prevail by the simple device of equalizing tax potential, distributing the money on the unconditional grant basis which the federal-provincial tax sharing arrangement postulates and then allowing the provincial governments by and large within their own orbit to operate in their own way. There again you have co-ordination. It may be at this stage of the game with everyone financially viable, it may be possible by inter-provincial leadership or federal-provincial leadership. If you leave the provinces a whole series of them, not financially viable, people without the tools to do any economic planning, to do any counter-cyclical activities, then you have got to look to federal leadership. We would take either one but we are not as fearful of provincial autonomy as some are. I think that is a reasonable assumption from our brief and from our submissions in other places but if provincial autonomy is to be

the guiding force, let us preserve the powers of the province to, let us say, their own financial ability to exercise those powers. This, I think, would be our point.

COMMISSIONER BROWN: Could I ask two questions, Mr. Chairman, please? This development of the welfare payments that Dr. Mackintosh spoke about has built in a kind of fixed increasing tax expenditure at the federal level. I would be interested in asking your comments: If the same funds had been spent on social capital grants by the provinces or municipalities do you think that the multiplication factor would have been as great or greater and also would it have given the federal government greater leeway so that they could act in a counter-cyclical fashion by not having this built in constant expenditure?

HON. MR. BLAKENEY: This is a good question. I would not off the top of my head want to say whether the multiplication factor of the welfare payments was lesser or greater than the payment made for public works such as the construction of a university. By and large social welfare payments have a pretty good multiplier factor, I would think. They always go to people of relatively lower income who can be depended upon to spend them and develop consumer demand.

I might say, I just would not care to make a prediction as to whether you could have got a bigger multiplier or stimulation of the economy by

putting this money into public works where it is distributing it around. I just don't know.

There is a supplementary point not right on your point, that even with the welfare payments there is a lack of demand, there is no doubt about it, we do not have enough consumer demand around and even with all this redistribution in purely theoretical terms we ought to be building pubic works and things to develop consumer demand. The problem earlier raised by Dr. Mackintosh is certainly a real problem and you are asking us really assuming you can only do one which would you do.

COMMISSIONER BROWN: Because the social capital would be more attracted to the community areas rather than the over-all factors?

HON. MR. BLAKENEY: This is true and it could be reasonably selective. We do not operate our welfare payments, most of them, on any real means test basis. Everybody gets the $65 or whatever it is whether they need it or not.

COMMISSIONER BROWN: If they do not need it they pay it back in income taxes.

HON. MR. BLAKENEY: Some portion of it but it happens a great number of people over 70, while they have substantial assets do not have substantial income.

COMMISSIONER BROWN: You commented that you cannot put up tax rates.

HON. MR. BLAKENEY: That is generally accepted.

COMMISSIONER BROWN: I would like to get into this a little further. At the moment I think all governments are taking something like -- what, 26 per cent of the gross national product?

HON. MR. BLAKENEY: 24, 25, 26, 27 per cent. I see different figures.

COMMISSIONER BROWN: Have you any estimate or any opinion as to what the maximum is?

HON. MR. BLAKENEY: I do not. I have heard Colin Clark and others voice these views. The figure was that 25 per cent was going to wreck the country. West Germany is at 24 per cent, as I understand their figures, and they do not seem to be in the process of being wrecked. A whole series of countries -- Norway, Sweden, Great Britain, I believe France are well above Canada and their governments take a great deal more out in taxation than do the total complex of our governments, provincial, municipal. I do think there is a limit but I do not think we are approaching it in Canada on any absolute basis now. Because of improper selection of our taxes we may be approaching it in some areas. Perhaps this is Dr. Mackintosh's point. Perhaps you can put the ceiling much higher if you take the money out in consumer taxes than you can if you take it out in growth inhibiting taxes if indeed this is an appropriate definition of them.

COMMISSIONER BROWN: Counter incentive.

HON. MR. BLAKENEY: Yes, that is a good term.

COMMISSIONER BROWN: That is all I have, Mr. Chairman.

THE CHAIRMAN: Aren't all taxes counter incentive to some extent?

HON. MR. BLAKENEY: I would think so but a sort of an average sales tax, 3 or 4 or 5 per cent, I do not think deters many people from spending. They spend their pay cheques all the same. They consume a little less directly and send it in to the government. I am by no means advocating this, if any members of the press are here, but it could be demonstrated that a very low consumer tax would yield as much as the difference between personal income taxes over the, let us say, 35 per cent level -- the amount of taxes raised by those effective rates which are over 35 per cent or 45 per cent -- somewhere in there, they are quite small and these people, many of them, are people who are making economic decisions as to whether they should invest or not. I would certainly want to argue with anyone who says that the tax rate is too much of a deterrent but I think it is almost impossible to be proved. But if we make that assumption then the point is still valid. Some of them are much more counter incentive than others.

COMMISSIONER MACKINTOSH: The consistent but not necessarily correct view is that all taxes are bad but some are worse.

HON. MR. BLAKENEY: That is right.

THE CHAIRMAN: We will now take a 10 minute

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recess.

--- Recess.

THE CHAIRMAN: Well, we will now resume and deal with the subject of the impact of monetary policy, which is covered by paragraphs 26 to 41 in the technical paper.

COMMISSIONER GIBSON: Mr. Chairman, I would like to ask a few questions on this subject. They are all fairly simple questions in that they do not involve as much general economic philosophy as the earlier ones.

The first question -- and this is talking about how monetary policy affects the government of Saskatchewan -- is the statement that you make in paragraph 28 of the technical paper to the effect that the province really is not affected by monetary policy because it has been reducing its debt for so many years. Isn't the size of your surplus to some extent, the decision on as to how big a surplus to run, affected by monetary policy? From a negative point of view, surely, there is still some effect on the level of interest rates and the ease with which money can be obtained?

HON. MR. BLAKENEY: Yes, I think I want to distinguish here between monetary policy and the effect of monetary policy. It is a self-evident proposition that the effects of monetary policy, whether we have a recession or boom, is going to affect our surplus a great deal when making a decision as to whether one should deficit. It is

true the rate of interest is going to be a factor in that decision.

COMMISSIONER GIBSON: As to how big the deficit may be?

HON. MR. BLAKENEY: That is right.

COMMISSIONER GIBSON: In other words, as to how big your surplus may be might affect a little bigger or smaller depending on the cost of money?

HON. MR. BLAKENEY: Yes, I think so. To some extent we felt we wanted to reduce our net debt for extraneous reasons -- extraneous to this: We wanted to improve our credit position and that sort of thing, but there is no doubt it is fair to say if the rate of interest was 2 per cent across the board we would not be nearly as interested in reducing the net debt on some of these others.

COMMISSIONER GIBSON: That is the point I was making: Even though you have been running a debt reduction programme, your policies of government are not altogether independent of monetary conditions?

HON. MR. BLAKENEY: No. We would emphasize that we have other large non-budgetary expenditures.

COMMISSIONER GIBSON: Oh yes, I wanted to come to that in a moment. If you were running a deficit -- and this is a conjectural question -- I am talking about the government itself ...

HON. MR. BLAKENEY: That is right.

COMMISSIONER GIBSON: ... I take it you

would feel you would be much more affected by monetary conditions than in the circumstances you have been operating in in the last decade? In other words, monetary conditions would affect you more if you were running a deficit?

HON. MR. BLAKENEY: Yes, I think so; this is true. This is going to affect us in the rate of interest and in the availability of capital.

COMMISSIONER GIBSON: Affect your social capital plans to some extent?

HON. MR. BLAKENEY: Oh yes, I think so. We have to look at universities and some of these things which can to some extent be contracted much more cheaply.

COMMISSIONER GIBSON: Getting down to the area which is really affected and which you say is really affected, and that is the area of the government corporations -- the power corporation and the telephone company -- you talk about there being a certain discretionary area of expenditure here, and you do not attach any quantitative measurements to this. Could you give an impression as to what might be the amount of discretionary expenditure? Would one-quarter of the expenditures which you have been making from year to year for power and telephones be discretionary?

HON. MR. BLAKENEY: I haven't those figures, and it would require an analysis, but thinking it over in my mind one-quarter would be on the high side. When I think power is the biggest one, and the number

would feel you could do much more [illegible] economic conditions [illegible] you have been [illegible] in other words, [illegible] you were [illegible] a [illegible].

MR. [illegible]: Yes, I think any [illegible] that is true. This is going to affect [illegible] in the rate of interest and on the possibility of capital [illegible].

COMMISSIONER STASON: [illegible] capital [illegible].

MR. [illegible]: [illegible], I think, [illegible] We have to look at [illegible] some of [illegible] which [illegible] more [illegible].

([illegible])

the time which is [illegible] you may [illegible] and [illegible] about these [illegible] and [illegible] as to [illegible] expenditure [illegible] which you [illegible] money and [illegible]

and I [illegible] [illegible] when I [illegible]

of discretionary decisions are relatively small, the largest single area of discretionary decision is the gas distribution programme, and that is one you can either do or not do. This is a programme which does get cut when -- taking gas to new communities -- it is a straight discretionary one; and the building of power generation and transmission facilities, the amount of discretion is relatively small, because you have to keep up with demand. You take certain risks over a little longer period of time depending on the availability of money, but ultimately the decision must be made to go ahead.

COMMISSIONER GIBSON: In other words, if you postpone for long you have got to do more later, but there is some element of possible postponement in timing, and you don't have to plan as much margin for a year or two?

HON. MR. BLAKENEY: A quarter would be on the high side; I would think one-fifth or one-sixth would be about it.

COMMISSIONER GIBSON: You said in the brief one of the places where there was this discretionary decision was in the office buildings, and that sort of thing.

HON. MR. BLAKENEY: Yes.

COMMISSIONER GIBSON: But you went on later to say it was really difficult to defer things that took several years to build. I don't quite follow that. You can still defer an office, even if it does take several years to build. It may be the

wrong decision, but if money is tight, it may be the thing you have to do; is that right?

HON. MR. BLAKENEY: Oh yes, I think so; this is so. We were referring there to using it -- I don't recall the reference, but we might have been referring to it as counter-cyclical in its effect, and it is very difficult to manage a four or five-year building programme on a counter-cyclical basis. You can vary it at the start.

COMMISSIONER GIBSON: This is on page 14, and it says:

> "If it takes three years to complete a building, monetary policy will have a small influence on the decision as to when to proceed".

HON. MR. BLAKENEY: I see the statement here:

> "If it takes three years to complete a building, monetary policy will have a small influence on the decision as to when to proceed".

I confess, I think I would revise that. I think this is not too sound. When I think back on our experience we did, in fact, delay the power building until, we thought, a more appropriate time, and we delayed it for several years.

COMMISSIONER GIBSON: Almost anything you do in this area would take a year or two to complete, wouldn't it?

HON. MR. BLAKENEY: Oh, yes.

COMMISSIONER GIBSON: In paragraph 33 you talk about the availability of money to Saskatchewan and its creatures -- these public corporations. You say when money is tight the limits of availability get sharper and narrow down: Did you actually feel these limits very much? The government itself was running a surplus, the telephone company and the power corporation seem to have gone carrying on with their programmes? I am really going back to the question we have just been talking about in another way.

HON. MR. BLAKENEY: This is a difficult -- we certainly have these limits transmitted to us. There is running through this brief a theory that there is some implicit absolute limit on borrowing powers, at least in the Canadian long-term market. I think this thread runs through here. This is transmitted to us through the dealers, and we are not really in a position to argue with the dealers too much on this. If all of them tell you one thing, why, they are probably right, because it is just the same if all the businessmen think there is going to be a recession, they are right just because they think it. If all the dealers tell you that X number is the limit of the bonds you can market, then they are right because if they all think this, this is right. We have had this transmitted to us, and I think the main effect on ourselves would have been to partly contract our programme, but only modestly, and partly to vary the sources of our funds.

COMMISSIONER GIBSON: To go on to the somewhat riskier sources you speak of here?

HON. MR. BLAKENEY: That is right.

COMMISSIONER GIBSON: I was wondering if you could give us a little more about these alternative sources. You say if the general long-term Canadian capital market is limited you then have the alternative of the money market, the savings bond market and foreign markets which are not limited to the same extent, and I was wondering if you would care to answer a few questions on this, mainly in the way of giving us some idea of the considerations which lead you to use these other sources? Perhaps if we can start with the United States dollar and the American market source, could you give us an idea of what sort of assumptions you make when you borrow in the United States on behalf of the power corporation, I think it was? What kind of rate of differential in the actual interest rates between the Canadian and American market is sufficient to make this interesting? What kind of assumptions do you make about the exchange rate and repayment? It would be interesting to get your views on these things.

HON. MR. BLAKENEY: Most of the borrowing was done by my predecessors, and more particularly by the Provincial Treasurer during the period 1944 to 1960, and I cannot therefore report from first hand what assumptions were brought to bear, because I think these particular decisions were made by the

then Provincial Treasurer, but I can tell you our general thinking along this line, and there have been a number of -- there is the sort of arithmetic of the thing -- and then there are some other assumptions which I think also probably motivated the previous Provincial Treasurer. I think there was some desire to limit the borrowings in the Canadian long-term market so as to rehabilitate -- perhaps that is a strong word -- but to strengthen Saskatchewan's position in the long-term market, because we were coming out of the period of the 30's and 40's when our credit,,during the 30's, wasn't prime, perhaps. This policy of strengthening went on, and part of it had a series of techniques to run budgetary surpluses to keep the market clean, to buy our own bonds back, and institute a savings fund policy and limiting borrowings on the Canadian market. This is a non-arithmetic reason for going to the American market. Then, you have this benefit of staying off the Canadian long-term.

Now, what were the detriments and what were the benefits of going to the United States? There used to be a sort of rule of thumb of -- well, .60 was a figure: If there was that much spread in the interest rate it was worth our while -- 60 points. This figure has waivered from 50 to 75 from time to time, and there are a number of assumptions built in there, and it gets trickier.

COMMISSIONER GIBSON: What about the exchange rate? This .60 -- is this on the assumption

you pay at par?

HON. MR. BLAKENEY: I think I will ask Mr. Johnston to answer this.

MR. JOHNSTON: Currently, I think, we would be inclined to look at the formula which you will recall Professor Bale outlined in the Canadian Journal of Economics and Political Science. According to his method of computation, if we take this situation as an example, if the exchange rate -- there is a discount of 5 per cent on the Canadian dollar, and a spread of .60, say, on province of Saskatchewan bonds -- that is, we could borrow at 5.40 in Canada and 4.80 in the United States -- and we are talking about a 20-year bond -- you want to know what the exchange rate would have to be over the life of the bond to make it worth our while borrowing in the United States. Using these assumptions, the exchange rate over the life of the bond would have to average 10.7 per cent discount on the Canadian dollar. So, I think what it really comes to is that you have to, in circumstances such as these I have described, you have a fairly substantial discount on the Canadian dollar for a long period of time to make it disadvantageous to borrow in the United States. This is the purely arithmetical supplement to what my Minister has said, and one looks, of course, at the trend in the Canadian dollar and finds that really there have been relatively few periods -- two, to be precise -- and for relatively short periods, during which the Canadian dollar has been at such a

heavy discount.

The short answer to your question is that, yes, the exchange rate is considered, and one must make certain assumptions as to the exchange rate over the life of the bond.

COMMISSIONER GIBSON: Which are more or less independent of what the exchange rate is at the moment -- in other words, if you borrow at a time of discount this is not necessarily a reason for making a highly pessimistic assumption about the repayment rate, is it? You cannot be more specific than this? In other words, you have got to have a sufficient difference in your interest rate to outweigh whatever you assess the exchange risk to be at the moment -- looking ahead over the period of your bond issue?

MR. JOHNSTON: I think it may be fair to say that during the mid 50's there was a tendency for people in Canada generally to make an assumption that the rate of growth of the Canadian economy was going to exceed the rate of growth of the American economy and, of course, one can trace this back, but nevertheless with this general long-run assumption, why, of course, you came to certain conclusions as to what the exchange rate would likely be over the life of a debenture issue.

COMMISSIONER GIBSON: I think a very general assumption was that you assumed the exchange rate at par and half of one per cent difference in the interest rates, and this was good -- this was in the

period when the Canadian dollar was, in fact, well over par. This kind of thing -- you would necessarily be guided by this now?

MR. JOHNSTON: I think that the validity of that -- I am expressing personal views and my Minister is listening -- I think the assumption that over 20 years the exchange rate will average par is as valid an assumption as it was in 1955. There have been no long-run reasons, I would suggest, for altering that assumption.

COMMISSIONER GIBSON: Now, would you mind going on to some of the considerations that led you to go into the savings bond area?

HON. MR. BLAKENEY: Before doing that, I wonder if I may make a little comment on this U.S. pay. We probably made it in the brief, but I think it is probably known we have a sinking fund -- 3 per cent of the outstanding issue, and if it is a U.S. pay issue we set up a U.S. pay sinking fund so that we minimize our exchange rate risk over the years.

COMMISSIONER GIBSON: Smooth it, so to speak?

HON. MR. BLAKENEY: Yes, we smooth it out.

COMMISSIONER GIBSON: Because when you do it, you are taking a risk.

HON. MR. BLAKENEY: That is right, and we are applying the long-term, rather than what happens when the bonds come due -- what happens on

that Monday morning.

COMMISSIONER LEMAN: Dollar averaging.

HON. MR. BLAKENEY: Yes, there is a good term and we have other considerations, non-arithmetic ones such as the present holding in United States pay or foreign countries. Even if we thought it was a good gamble we would not put all our eggs in that basket. We would like to limit the amount of foreign pay we have and the Bank of Canada's opinions and all these things have an influence.

COMMISSIONER GIBSON: Could you say something about the consideration that led you to issue savings bonds?

HON. MR. BLAKENEY: Well, we are simply edging into this field. Last year we took out $14 million in savings bonds approximately and this year we made strenuous efforts to limit this to around $10 million and in fact the issue came in at $11 million or something or other. Here we have tailored the issue to make it appeal to individual investors. I think you may know our provisions but it is virtually not open to corporations except those who have head offices in Saskatchewan. The dollar limit is small. We want to build in a stability there and reduce the turnover risk.

I think here we would think that any limits we have are just psychological limits that we currently think and we are thinking -- our present thinking is based on nothing much but hunch,

that we should not have more than 10 per cent of our outstanding debt in this short-term demand money, if I may refer to it as that.

COMMISSIONER GIBSON: This kind of limitation is set by considerations of liquidity?

HON. MR. BLAKENEY: Yes.

COMMISSIONER GIBSON: Where you do not want to take out too much in case it might become demand money?

HON. MR. BLAKENEY: We cannot envisage a demand in the ordinary sense of the word but it may have to be rolled over at a higher rate and you get yourself locked into the higher rate over a long period of time and it is a great risk.

COMMISSIONER GIBSON: Is this really worth your while? I can see your interest, you see a big number of widely held forms of debt but you pay more for it than if you borrowed on the short-term market, don't you?

HON. MR. BLAKENEY: Yes, but we would think that the risks are a good deal less than on the short-term market.

COMMISSIONER GIBSON: In other words, you feel the spread of these bonds gives them enough stability so that the contingent liability is not very likely to turn up?

HON. MR. BLAKENEY: That is right and we tailor them so that there is an advantage to hold them to maturity.

COMMISSIONER GIBSON: Very much like

Canada savings bonds in that respect?

HON. MR. BLAKENEY: That is right.

COMMISSIONER GIBSON: Well, what do you think about a spread of this kind of financing or is this a fair question?

HON. MR. BLAKENEY: Well, this is something I had not thought of or formed any opinion on but offhand I would think it was quite desirable to have provincial government bonds held widely throughout the economy by small investors and that sort of thing.

COMMISSIONER GIBSON: You cannot persuade them to buy them on a fixed term basis and pay a little more interest?

HON. MR. BLAKENEY: We have not been able to persuade them and this is really a feature of an undeveloped security industry in our province. Now, this is not surprising. "Undeveloped" is the wrong word -- developing, I believe, is the appropriate word but we have not had a securities industry which could market long-term bonds to small investors. The Canada savings bond people very kindly built a market for long-term bonds which had a demand feature in them. Several of the provinces are taking advantage of this.

COMMISSIONER GIBSON: I suppose there is a competitive side to this too and if your citizens of the province are buying Canada savings bonds in a large way it is hard for you to sell fixed term bonds?

HON. MR. BLAKENEY: That is right.

COMMISSIONER MACKINTOSH: You have the Co-operative Trust Company issuing certificates of a

similar sort.

HON. MR. BLAKENEY: I had not been fully conversant with the fact that they had been issuing demand type.

COMMISSIONER MACKINTOSH: But this spread on the market may be tougher and more dangerous?

HON. MR. BLAKENEY: Yes. The size of this market is, I think, totally unknown and one looks at a province like British Columbia and one sees that it has been developed to a fairly large extent there.

COMMISSIONER MacKEEN: There is a limit to the amount of bonds you sell to any individual?

HON. MR. BLAKENEY: $10,000 on any one issue.

COMMISSIONER MacKEEN: It has to go to an individual, not a corporation or company?

HON. MR. BLAKENEY: We permit a corporation to buy them if their head office is in Saskatchewan. Regrettably, this limits the distribution.

COMMISSIONER MacKEEN: Up to $10,000?

HON. MR. BLAKENEY: Yes.

COMMISSIONER MacKEEN: How about credit unions?

HON. MR. BLAKENEY: They can buy them up to $10,000. The limit of $10,000 applies to everybody.

COMMISSIONER BROWN: Does this development not only possibly affect the potential for selling your own long-term bonds in the province but also the potential for selling municipal bonds in the province? To that extent is it not making it more difficult for

a more wide-spread investment dealer organization to develop?

HON. MR. BLAKENEY: This would be a reasonable assumption. The dealers tell us it is not so but I think probably it is not so just because of the very circumstances which obtain today. One would think there would be a long-term borrowing. Everyone cannot exploit the same market.

COMMISSIONER BROWN: And obviously if you can buy a 10-year bond paying 5 per cent which is callable you are going to ask for more on a 10-year term bond or 15-year term bond, you are going to have to pay 6 per cent?

HON. MR. BLAKENEY: The dealers tell us that they are separate markets but I wonder whether this can continue to be the fact.

COMMISSIONER BROWN: So far on your first one I gather from the comparison in the tables you had a redemption of about 3 per cent in the first year?

HON. MR. BLAKENEY: Yes, that is about the right figure. Over the first year it was ---

COMMISSIONER BROWN: I am just going by the figures over there. I would work that out to around 13 per cent. How close it is to a 12-month period I do not know.

HON. MR. BLAKENEY: That is about right, yes.

COMMISSIONER BROWN: So as you get on farther you are probably going to have more redemptions once everyone is getting close to ---

HON. MR. BLAKENEY: Well, it is a nice question. If that rate of erosion continues, 30 per cent on the total issue, they are 10-year bonds -- to some extent that rate of erosion will not continue because as you get nearer to maturity date the premium makes it much more desirable to hold but in the last year your yield is away up.

COMMISSIONER BROWN: They are non-transferable, I gather?

HON. MR. BLAKENEY: Yes.

COMMISSIONER BROWN: Except to estates?

HON. MR. BLAKENEY: That is right.

COMMISSIONER GIBSON: Would you give us your ideas as to why you go to the money market, the considerations that lead you in that direction, some idea of the limits there? This is the other sources that you go to, the long-term market.

HON. MR. BLAKENEY: With respect to 1-year bonds, one year and six months, we have attempted to pick a level which we think we can roll over even in buoyant times, and when money is tight. This has been our aim. Not particularly for publication but we think we have been rather conservative in this field and that this is an area which we might well look at and see whether we just have not been too conservative on our money market purchases or sales of that type of security.

Similarly for the treasury bill market, the 91-day market, we have felt that $1 million a week we ought to be able to handle even in pretty difficult

times. The rate will change a bit, of course.

COMMISSIONER GIBSON: Can you give us some idea of the sort of upper limit at any given time that you think is appropriate for this type of short-term debt? You work on that basis?

HON. MR. BLAKENEY: We have up to now worked on a basis which we felt was safe even in tight money times. This has been the policy. I do not think we have really tried to probe whether we were too conservative there but we might review that some other time.

COMMISSSIONER GIBSON: Would you agree there was an area of choice between the money market and the kind of savings bonds you put out or do you think of it that way?

HON. MR. BLAKENEY: I think there is an area of choice there. I do think they are in part alternative. I do not think they tap the same sort of funds.

COMMISSIONER GIBSON: No, they do not. It is just that there is a demand obligation on the savings bond. That is the element of similarity.

HON. MR. BLAKENEY: Well, they each carry a special type of risk, a risk which is not inherent in the long-term Canada pay and you sort of balance off this risk and to that extent they are alternative.

COMMISSIONER GIBSON: I would like to get back again to the way that the monetary restriction works as it affects the local governments. You say a little further on here, in paragraph 37 that the credit for

local Saskatchewan governments is more severely rationed in periods of monetary restraint. Would you give us some impression of how far this is so, if there is any quantitative material here? Really all we know is that the number of delegations asking for assistance, the number of resolutions which you get from local government organizations asking for some provincial assistance with capital financing programmes seems to increase fairly briskly when there is a capital shortage and when these people are finding difficulties. The sequence of events is clear enough. Almost by definition that is a buoyant time when there is tight money, almost by definition there is a wave of optimism "Let us get on with projects now", and almost by definition they do not much like talking to a dealer who has lots of other issues and they come around to the p rovincial government which is having its troubles financing and there is a temporizing and dampening effect. I would not be able to put figures on it but this was the basis in mid-1958.

COMMISSIONER GIBSON: In other words, you then go through a process of, would you call it, rationing of credit to the local governments?

HON. MR. BLAKENEY: Certainly rationing our school grants for capital purposes and also rationing it out and that is really all it could be called. You say you can provide X millions of dollars for capital building.

COMMISSIONER GIBSON: How do you do this, do

you just knock such and such a percentage off most of the demands and weigh one thing more heavily than something else, or how do you do it?

HON. MR. BLAKENEY: You set up a formula which you hope will discourage some because of the demands it puts on them. Others you would have to disillusion by saying they can not have any more money from the government fund because you need it for yourself. I would not be able to acquaint you with the complete arsenal of weapons which one uses.

COMMISSIONER MacKEEN: Mr. Blakeney, do you vary the rate at all according to the cost to the provincial government, what you charge the municipalities when money is tight; in other words, is there just one rate that you charge to the municipalities?

HON. MR. BLAKENEY: Yes. We do not make many direct loans to municipalites in this pure sense of the word. We either make grants to them which, of course, do not bear a rate of interest or in the alternative we buy a portion of an issue which they are marketing and when we buy a portion of the issue we expect to get the same coupon rate that the other purchasers get and if we buy 50 per cent of the issue which a town is marketing to instal sewers and water systems and they put a 5-3/4 per cent or 6 per cent coupon on it we will buy half of it but they will have to put the coupon on which will sell the other half and this is what we get. So to the extent that they have to vary their coupon we vary the amount of our participation.

COMMISSIONER LEMAN: But you always pay the same price as the public?

HON. MR. BLAKENEY: Yes.

COMMISSIONER BROWN: Does this apply even though a dealer is working on it?

HON. MR. BLAKENEY: Yes, and it is an incentive for the dealer to take the issue. He knows he can market a decent piece. And he has got a head start on the commission, you might say. If he came to us with too many bonds we might try to move him down but within the sort of general limits.

COMMISSIONER BROWN: Is the dealer working on an agency basis or has he bought the bonds?

MR. JOHNSTON: I think in most of the smaller local government units it is an option. It is not an underwriting deal although there have been more underwriting deals lately than, say, five years ago.

COMMISSIONER BROWN: If it is an option, let us say it is an option at par less commission when you go to the dealer and he has probably not made the effort you think he should have made on it do you insist on buying it at less than par or do you buy from him at par but he gets a lesser commission and the municipality gets the benefit of the difference?

MR. JOHNSTON: In this case we will negotiate a commission with the investment dealer.

COMMISSIONER BROWN: So that the municipality

gets the benefit of it?

MR. JOHNSTON: That is correct. No, Not the municipality. He buys the bond from the municipality at a negotiated price plus a commission and then we will reduce the commission.

COMMISSIONER BROWN: I don't know whether it worked the opposite way so that the municipality got the benefit of your bargain.

MR. JOHNSTON: No.

COMMISSIONER GIBSON: Getting back to how the money restraint works, I take it that your general view is that it has a very significant effect on local government when there are periods of tight money but you do make one exception to this. You say that cities are welfare borrowers that have commitments which can scarcely be deferred, the implication being that they pretty well have to go ahead with most of their plans. What I wanted to get at here was the city is levying tax rates too and the councils, aren't they to some extent sensitive to an increasing tax rate if not directly to higher interest rates? Suppose an interest rate were lower, suppose instead of looking at a 6 per cent interest you were looking at a 4 per cent interest rate, would their programme be bigger?

HON. MR. BLAKENEY: I think this is true. I think it is varied as to impact. I think you have to realize that civic governments usually bring to bear a fairly short-term approach and 6 per cent interest rate is not going to bother this council

MR. JOHNSTON: That is correct. No, the [illegible] municipality. We have not sold from the municipality at a negotiated price plus a commission and then we will reduce the commission.

COMMISSIONER FOX: I don't know whether it worked the opposite way so that the municipality got the benefit of your bargain.

MR. JOHNSTON: No.

COMMISSIONER [illegible]: I really want to hear the minor persuading works. I take it from your general view that it has a very significant effect on local government operations, particularly of [illegible] money but you do have one exception to this. You say that cities and welfare [illegible] which [illegible] scarcely [illegible] [illegible] they [illegible] [illegible] their plans. What I wanted to get at here was the [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]

[illegible]

[illegible]

very much because after all it is not going to be there when the amount of the interest is paid.

COMMISSIONER GIBSON: It has been passed on to the tax rate?

HON. MR. BLAKENEY: Yes, but someone raises the taxes two years hence or something. I would not be suggesting that this is necessarily a cause but it is true that municipalities are only now sort of turning their minds to their long-term pictures. But I would not be wanting to suggest that the interest rate does not affect them. I think it does. I think it affects their decisions as to whether to borrow. I really cannot qualify that.

COMMISSIONER GIBSON: Thinking of it the other way, though, in most cities as opposed to towns there is quite a big long-term job of renewal, that needs to be done. It does not have to be done this year or next year, but sooner or later a lot of things in regard to sewers, roads, and so on -- you can see them coming up, and this is the area I was wondering about: It would seem to me a higher interest rate would make it possible to do less of this than you might have otherwise considered.

HON. MR. BLAKENEY: I think this is so. I think of the Saskatchewan cities, and I think of the ones which in the days of low interest did not carry on renewals, and in the days when interest went up they did this.

COMMISSIONER GIBSON: This was because of the change in the income of their citizens, really, wasn't

it?

HON. MR. BLAKENEY: Well, I am thinking of the period since the war.

COMMISSIONER GIBSON: Yes.

HON. MR. BLAKENEY: I think it is a change in the income of their citizens, but it is pretty clear this was a greater factor in reaching the decision -- their tax potential -- than was the rate of interest.

COMMISSIONER BROWN: In other words, they are fairly immune to monetary policies?

HON. MR. BLAKENEY: They are not immune to its effect, in the sense of paying a higher interest.

COMMISSIONER BROWN: But in making their decisions?

HON. MR. BLAKENEY: They tend to be. I think they are becoming less and less immune. I think the bringing to bear of these considerations is much truer in municipalities than it was a few years ago when they were sort of -- well, it was a straight matter of squeaky wheels. They had so many demands and they picked out so many. But I think there are more long-run projections now, but I think it is still not a great factor.

COMMISSIONER MACKINTOSH: A very common point of view is that construction costs increase every year, and that to wait for the lower rate of interest will lose you more than if you go ahead with it now.

HON. MR. BLAKENEY: That could be tr

COMMISSIONER MACKINTOSH: It may not be true, but this has been a very common influence.

HON. MR. BLAKENEY: It has not been too far wrong as an assumption.

COMMISSIONER MACKINTOSH: So far.

HON. MR. BLAKENEY: Yes.

COMMISSIONER BROWN: There is only one question I have, which is a few paragraphs further on in the technical brief where you talk about the private sector ---paragraphs 39, 40 and 41. I was wondering if you could give us some picture and rough statistics of the pressures on your Industrial Development Fund in times of monetary restraint and how and if you met them? This is two things: One is the extent to which monetary restraint influences people in approaching you, and also the extent to which you through your operations isolated such people from the effects of monetary policy?

HON. MR. BLAKENEY: I would answer that by dividing it into two parts: Firstly, the effect of monetary policy on their working capital funds, and the effect of monetary policy on their long-term capital requirements.

With respect to working capital, we were conscious, as I am sure everyone in Canada was, of the tight money policies which the chartered banks applied from time to time.

COMMISSIONER BROWN: Is it fair to blame it all on the chartered banks?

HON. MR. BLAKENEY: No, no. I saw Mr. Gibson

getting ready with a comment. No, I was not suggesting it was the chartered banks' policy. It was manifested through the chartered banks, and we were unable or unwilling -- I don't know which -- to shield the new industry or the existing industry from the impact of this to any great extent. We did not attempt to get into the business of supplying working capital through our Industrial Development Fund. We did a little bit of it around the periphery. It is sometimes difficult to distinguish what is long-term and what is working capital, but, by and large, we did not do much in that regard. With respect to people's long-term requirements, there was some increase in demands on our funds. I would have thought the payments out, say, three years ago would have been -- we might advance $1\frac{1}{2}$ million in the coming year, and these are rough figures, which may have been $3 million three years ago. This is sort of quantification -- this is the money for smaller industries. In addition to this, we, the government, guaranteed the bonds of two particular industries, one to the extent of $5\frac{1}{2}$ million and the other to the extent of $10 million, who were unable to get long-term financing. I would not, I think, be able to say that their inability was due to credit controls. It is sort of an amalgam of reasons that they did not get their money, and I would not want to say this is due entirely to monetary restrictions.

COMMISSIONER BROWN: Steel was in 1953, which was a period of monetary restraint, and the

Cement was ...?

HON. MR. BLAKENEY: The Cement was in late 1955 and early 1956. I think we beat the monetary restraint on that one by about a month. It was November, 1955, and there was a fairly sharp -- this trust deed was November, 1955, and I think the deal was negotiated a little earlier than that. But the fact this was coming doubtless had some effect on trying to market these bonds.

COMMISSIONER GIBSON: Going to the main report you deal at considerable length with your borrowing decisions, but the conclusion just before that -- the Government of Saskatchewan capital markets -- there are a few more questions I would like to raise. On page 10, paragraph 30, you say that the case for the first kind of provincial government borrowing -- and this is borrowing for the power commission and the telephone company -- is quite straightforward. There is one further question here that is not raised, and I presume that it would be possible in some circumstances to raise rates rather than borrow more money -- that is, rates for service -- and wouldn't this appear as a serious alternative if money were expensive, for example?

HON. MR. BLAKENEY: Yes, but the sort of quantities of capital involved are so great that it does not become a real serious alternative.

COMMISSIONER GIBSON: Not in one year, but over a period of years it becomes a significant alternative?

HON. MR. BLAKENEY: Oh yes, I would like to make the point of quantification again: The Saskatchewan Power Corporation capital spending programme during the last fiscal year was greater than its total revenue, so you would have to increase the rates 100 per cent.

COMMISSIONER GIBSON: I appreciate that, but the point is, when money is expensive wouldn't you think as a partial alternative -- obviously, it could not be a full alternative -- wouldn't you consider the possibility of taking a good look at the rate structure and seeing what you could do there?

HON. MR. BLAKENEY: That is right. It is a little easier in telephones than in power. The power rates, at least at the particular levels, are fairly sensitive. There is the law of diminishing returns setting in pretty rapidly in some of these rates.

COMMISSIONER MACKINTOSH: You mean you have competition?

HON. MR. BLAKENEY: No; a person simply doesn't use power if the rate is too high. You are going to build the plant anyway, and you know the nature of the power industry: The fixed capital is enormous.

COMMISSIONER GIBSON: But you do have competition with gas and oil?

HON. MR. BLAKENEY: Oh, yes.

COMMISSIONER MACKINTOSH: That is what I meant. I wasn't referring to the private utilities.

HON. MR. BLAKENEY: But with telephones, this is true, and when one looks at the rate policies of telephones, and to some extent power, one could reach the conclusion that possibly it has been an element in the planning. To some extent, of course, your rate of depreciation is a discretionary thing, and if you set it a little high you are, in fact, generating capital for future development by a higher rate. It may not show up as a profit; it may show up as a depreciation.

COMMISSIONER GIBSON: Going on to paragraph 33 you say here that a national government can, in fact, take a different view than a provincial government as to its capital financing, that it is able, because of the broader economy -- and also the suggestion is made here, because of its power in the sphere of money, that it is able to take a very much broader view -- I agree the national government has a much broader base, but I don't see why if credit is being extended -- in other words, it is a reasonable monetary policy which fits a particular set of circumstances -- why it is not just as appropriate for a provincial government to borrow as a national government to borrow. The availability of credit is partly related to your monetary policy and it affects both the federal government and the provincial government.

HON. MR. BLAKENEY: Well, I think this is the basic proposition of the brief, of course, and we just say a provincial government and a national government in this particular area are two totally

different animals, and when we ask for federal government social capital loans or grants we are not asking this because we want someone else to do the dirty work of taxing. We are not asking this solely because we think there is inequity of tax potential across. We just think we have a couple of other reasons which we think are compelling reasons, and another one we think, is that if the provincial government borrows, what can it do? They can engage in social capital projects or some economic development projects, but in the case of Saskatchewan the greater portion of the benefits of these simply leak out. It does not accrue to Saskatchewan. We can build a resource road, but there is no reasonable belief that Saskatchewan people will drive over this to develop the minerals; and if minerals are developed there is no ground for believing they will be refined in Saskatchewan or that the profits will accrue to Saskatchewan people, or that in any way very much of a benefit will accrue to Saskatchewan. With respect to technical education, the situation is not much different. It is all very well for us to train technologists, but there is no reason to believe the benefit will accrue to Saskatchewan.

COMMISSIONER GIBSON: But isn't this something that is going on generally in the country? In other words, if you get a period of growth, everybody is doing a job of providing the facilities to a varying degree in education, and so on. Surely, you could not argue they should all be geared to a central level?

[illegible]

[illegible] we are not

making [illegible] also to do the [illegible]

work of [illegible] only because

we think [illegible] essential repairs.

[illegible] reasons which

we think are [illegible] another one we

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[illegible]

COMMISSIONER [illegible] This should

[illegible] in other

words, if you [illegible] is

doing a job of providing the [illegible]

HON. MR. BLAKENEY: So long as everyone is doing it approximately at the same level, this is all right, but then we run into a further problem, and this is that the federal government can incur interest charges to generate economic development even if this economic development does not produce revenues for the federal government -- direct revenues -- because this benefit is going to apply across the nation, and they can collect their money across the nation.

COMMISSIONER GIBSON: But this does come back in revenue in one way or another.

HON. MR. BLAKENEY: Yes, may be, but this is a far cry from the provincial government's position. If they incur interest charges to generate one of these projects, if the economic level is boosted, this does not materially increase the tax potential of the province because the economic development is generated all across the country, and it is not a mere question of transfer of payments, because while it is true that the federal government taxes to pay money to its bond holders, it is merely moving money from one Canadian citizen to another Canadian citizen, by and large. If we tax to pay money to our bond holders, it is not moving money from one Saskatchewan citizen to another Saskatchewan citizen. By and large, it is moving Saskatchewan money outside of Saskatchewan because our bond holders are outside. Our position is the same as if Canada were financing its deficit by borrowing in the United States.

COMMISSIONER GIBSON: Surely this is a matter of degree. You, yourselves, make this point in connection with local government finance. You seem to feel there should be a reasonable degree of local government responsibility. You don't like the idea of guaranteeing local government securities. You prefer, I gather, that they raise a good deal of the money themselves. So, in the larger field there is surely a good deal in this idea of responsibility being associated with expenditure, and of course in the broader field you run into the basic constitutional problem which you do not encounter at all in the relationships between provinces and municipalities. We have a constitution which makes the relationships very different, as you know so well. What I am getting at is the sort of argument that the federal government should raise more of this money for use across the country through provincial hands -- local hands -- and I do not think you have made your point that this would be a more effective way of raising the money. You may raise more money from the people in the locality by having the local governments and provincial governments raise the money in the locality. You may water down your national credit. We have seen in the last few years some rather perverse reactions to monetary policy arising out of fears of inflation and general world environment, and so on, and it is perfectly obvious there is a limit to how much can be put under the national government. Would you care to say more

[illegible] R [illegible]: Surely [illegible] is a

matter of degree. You, yourselves, make this

[illegible]

You seem to feel there should be a reasonable degree of local government responsibility. You don't like the idea of guaranteeing local government securities. You prefer, I gather, that they raise a good deal of the money themselves. So, in the latter field there is surely a good deal of the idea of responsibility being associated with expenditures, and of course in the broader field you have the [illegible] contribution [illegible] which you [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] We have a [illegible] which makes [illegible] [illegible] very different, as you know so well. [illegible] I am getting at is this [illegible] of [illegible] [illegible] national government [illegible] [illegible] [illegible] [illegible] [illegible] across the country [illegible] provincial [illegible] – [illegible] hands -- and I do not [illegible] you [illegible] were your [illegible] [illegible] this [illegible] [illegible] [illegible] way of raising the money, [illegible] you may [illegible] [illegible] the people in the locality by having the local [illegible] [illegible] [illegible] [illegible] the money to the [illegible] [illegible] national credit. [illegible] have [illegible] [illegible] [illegible] few years some [illegible] [illegible] [illegible] [illegible] policy arises [illegible] of [illegible] of [illegible] general [illegible] development, and so on, [illegible] only one [illegible] [illegible] [illegible] [illegible] the [illegible] the

on this particular point?

HON. MR. BLAKENEY: I don't think we see the sort of constitutional difficulties to the federal raising and provincial spending of money that some people do. It seems to me the tax rental agreements are a perfectly valid and perfectly constitutional reaction to the fiscal problems we have in Canada. I would direct the Commission's attention, look around and see what counter-cyclical projects are on the go in Canada, and how many of them are on the go solely because there is federal participation. I look around our place, and we are going into a project of building technical education facilities solely because the federal government are putting up 75 per cent. We could not have afforded it otherwise. The South Saskatchewan Dam is the biggest construction project in our province, and it is being built because of federal participation, and it would not be built without federal participation. We are not suggesting that our remedies here are the only ones that ought to be applied and the only tools that ought to be used in economic planning. The biggest construction projects we have seen have been, by and large, federal participation ones. It is not reasonable to ask provinces with the resources of Saskatchewan or Newfoundland to get into this business of counter-cyclical financing. They would look upon us as enterprisers and we think they would look askance at us if we got into the business.

THE CHAIRMAN: Who asked the provinces to

get into the business?

HON. MR. BLAKENEY: I don't know.

THE CHAIRMAN: I do not think the provinces ever have been asked.

HON. MR. BLAKENEY: No, and I don't think they should be asked.

THE CHAIRMAN: There are certain federal schemes, two of which you have mentioned, which have been designed to some extent to fill in this cyclical gap, and the two you have mentioned have certain federal repercussions: The dam is not for the interests of Saskatchewan, I would imagine. It must have some wider benefits. The technical school, as you have already mentioned, is something that is in the national interest because people do go from one place to another, and most of them may not stay in Saskatchewan. There must be many proposed projects that are useful projects merely in the provincial interest, which could be accelerated in bad times or poorer times, and why should they be assisted by federal money?

HON. MR. BLAKENEY: Our answer to that is they should not be.

THE CHAIRMAN: Well, then you could have a provincial acceleration programme for projects filling your own proper needs which would have no particular federal repercussions, that would go quite a long way, and, as I say, this whole cyclical programme is quite more complex than it appears on the surface. I think fundamentally this is sound in theory and if applied properly could be very useful in its multiple

results and to a large extent to promote employment in times of unemployment and to maintain the economy to some extent but I think you cannot bank too heavily on that to cure depression problems. I think they are more complex than that. It is only generally on building projects of one kind or another which employ a certain type of labour and there are many people who are thrown out of employment who would not be fitted for that kind of work, who do not have any skills in that kind of work. There are many problems of that kind.

It takes time to plan projects. They may plan them so far in advance that the plan becomes obsolete when you want to put them into effect. There are many practical aspects of the whole business but one that is practical and can b e done usefully is to accelerate local works which have some urgency but have not been done because they were not acutely urgent and accelerate to some extent programmes of a provincial nature and muncipal nature.

The money that seeps through the provincial and municipal field is much more -- it seems to me is a much higher multiplier, as we call it, than much of the money that is spent directly on the federal project. So that there is a great deal the provinces can do and are doing and have done. Although it may not have been called cyclical spending, nevertheless when employment becomes somewhat acute I think all the provinces have acclerated their local works from the municipalities up to the provincial level and there are

certain types of projects to which the federal government do contribute at the present time as I understand it. However, I do not think we are in disagreement fundamentally on this problem.

HON. MR. BLAKENEY: No, I would want to emphasize again that our proposal with respect to federal government money is continuing social, industrial and economic development, creation of loans, of finances, those projects which are judged to be "in the interest of the country as a whole". This is our submission. We are not suggesting that local capital projects ought to be financed by this grant. This is our submission and we here have accelerated local projects as other provinces have.

I have a copy of my budget speech here a couple of weeks ago and our construction projects next year, we anticipate, will be $85 million. This compares with $78 million in the year just ended which is a fairly substantial increase. I am sure I would agree with the Chairman that there is no substantial difference in the multiplier factor of a federal government project.

THE CHAIRMAN: But I mean if it is distributed through the municipalities it reaches a greater variety of people. The strictly federal projects are generally large projects at certain specific places and they may employ a great many people for the time they are being built and then they end but in the municipalities there is constant work being done from sewers up to town halls and that sort of

thing as you know and they can be accelerated very easily because there is always something that can be done and usefully done. It seems to me there is a much greater scope for acceleration in that field with real multiplying factors than there is in certain big federal projects. I notice the federal government is contributing to the Saskatchewan Dam. They do contribute to technical education -- 75 per cent, isn't it?

HON. MR. BLAKENEY: Right.

THE CHAIRMAN: So that is already being done.

HON. MR. BLAKENEY: Right and we think this is an excellent idea and we are amazed to know why it stops there. If it is a good idea it behooves the people to show that this is the precise spot to stop it.

THE CHAIRMAN: But those are two pretty big federal contributions right there. After all it has been said you constantly have to face a choice. You cannot do everything at once.

HON. MR. BLAKENEY: Our choice now is to have a loss of $2\frac{1}{2}$ thousand or 3 thousand because of unemployment or slow growth in our employment or not to have that loss.

THE CHAIRMAN: But where does the unemployment centre? Where are the great centres of unemployment?

HON. MR. BLAKENEY: This is not a proposal for Saskatchewan. This is a proposal for all provinces and we argue elsewhere that there should be regional

emphasis on this.

THE CHAIRMAN: It seems to me that as far as Saskatchewan is concerned you are gaining the benefit of the sort of programme that you advocate to a considerable extent. What is lacking in Saskatchewan on this sort of programme? What more would you think would be desirable for Saskatchewan?

HON. MR. BLAKENEY: I may say one of the federal projects which I think is desirable in this way is the winter works project. I am suggesting to you that that has got a first-class multiplier factor.

THE CHAIRMAN: You are gaining the benefit of that?

HON. MR. BLAKENEY: We would say this: Here we are in Canada, just talking broadly now -- we have got plants which are not fully occupied or utilized, we have got some plants shut down. We have got everywhere in Saskatchewan and elsewhere need for increased university facilities. We cannot see what would be wrong with building ahead for universities. Should one build far ahead, six months, nine months ahead, a year ahead, in the time of recession to provide a university plan which we know as surely as we are sitting here is going to be needed?

We are just saying that it is beyond the ability of a province to finance this to any large degree because here ---

THE CHAIRMAN: That may be so but do you need any extra university space right now?

HON. MR. BLAKENEY: I am sure we need some

extra.

THE CHAIRMAN: Yes, I know but it is not an urgent necessity at the moment.

HON. MR. BLAKENEY: I am sorry, we are not making our point then, sir. We are not arguing that we ought to be providing any urgent social need. We are just saying that here is capital planning which we all as a nation well know we do not need immediately and why not provide it now when we have unemployed reserves and unemployed people. This seems to be an obvious simple argument.

THE CHAIRMAN: In Saskatchewan?

HON. MR. BLAKENEY: In every province.

THE CHAIRMAN: I am talking about Saskatchewan at the moment because it is your brief and I just want to see how in a practical way the present programmes are working out and what further you have in mind should be done?

HON. MR. BLAKENEY: Well, may I say this, that if there were a federal-provincial project for building university buildings these could be being built which are not being built now.

THE CHAIRMAN: That would employ people in the building trades?

HON. MR. BLAKENEY: Yes.

THE CHAIRMAN: Who are now unemployed?

HON. MR. BLAKENEY: Yes.

THE CHAIRMAN: Are there many unemployed in the building trades?

HON. MR. BLAKENEY: Yes.

THE CHAIRMAN: Well, there is no use providing something that requires the building trades when the building trades are reasonably well employed.

HON. MR. BLAKENEY: This is fundamentally our approach.

THE CHAIRMAN: Well, I think I have got a clearer idea of the way this is working out here as the result of this discussion.

HON. MR. BLAKENEY: Our problem is that we do not think we could, acting as a prudent government, attempt to finance these projects because we won't get revenue back, we won't carry interest charges there. As a prudent provincial government with a very open economy we do not think we could borrow for these projects and yet we feel that they ought to be done and we think that anyone looking at the national picture would agree that they ought to be done and they do not appear to be being done here. We just have not been able to find the agency who ought to be doing it.

COMMISSIONER MACKINTOSH: I wonder if I could simplify this. I would like to take Mr. Blakeney's side on the question of more university building.

HON. MR. BLAKENEY: Are you disagreeing with me, sir?

COMMISSIONER MACKINTOSH: I think what he is urging has two elements in it. First, he is saying if there is any amount of money or funds available in this country for anti-recession uses that it will

be more effective if it is dispensed on a federal-provincial programme so that one province does not stay out and reap the surplus out of the spill-over from other provinces and that it is true whether people feel they can afford to spend a great deal or only a small amount but that in the second place he feels - whether he is right or not I cannot judge -- that the federal government has more financial leeway to increase or manipulate, as it were, its budget in an anti-cyclical fashion than the provincial governments have. The provincial governments have more to do, they have got their special responsibilities and that the federal government, not because of its greater financial resources but because of the flexibility of its programme and I think these are the two elements that are really back of his contention.

HON. MR. BLAKENEY: Yes, particularly in the case of the federal government, if it is financed by borrowing the borrowers are the lenders and if it is financed by taxing the people, the people get the benefits, the people who pay the taxes.

COMMISSIONER MACKINTOSH: I am not sure whether I should go so far back but I think nearly 30 years ago a provincial minister in one of the provinces, I won't say which province, explained to me and said: "Professor, you do not understand. If the federal government would pay 80 per cent of this this is a good project; if they will only pay 20 per cent this is a bad project".

HON. MR. BLAKENEY: It is a perfectly rational

view for a provincial government to take.

COMMISSIONER MACKINTOSH: I was hoping you were getting up to a more lofty height.

HON. MR. BLAKENEY: It is really our own point that it should be taken to a lofty level. No provincial government can embark upon programmes which are economically sound but fiscally unsound and by George the federal government can and the provincial governments cannot because the federal government is virtually a closed economy -- I use the term loosely -- and the provinces are anything but. They borrow their funds outside and the economic effects are not outside.

COMMISSIONER GIBSON: I think on this question of leakage you would agree you do not want to go too far because it applies to municipalities and it applies to Canada as a whole. In any national programme there is quite a bit of leakage and if you put a lot of emphasis on it you are apt to get an unbalanced programme.

HON. MR. BLAKENEY: I quite agree, sir. As a matter of fact with respect to municipalities it is a very, very clear point and if you offer municipalities the right to put on a sales tax or a gasoline tax as has been done in Saskatchewan casually, they just sort of laugh at you and say: "We cannot apply a gasoline tax in our city; everyone would simply buy the gas outside. You will not be helping at all."

COMMISSIONER GIBSON: But you see what is

concerning us is that the alternative proposal, the additional pressure on the federal finances, if you like, then has to be looked at critically to see whether this is a plus factor you suggest or does it add up to a better total than another device. It is a very great problem of judgment.

COMMISSIONER BROWN: I am interested in one of your comments and that is that you are apparently complaining that the borrowing is usually outside the province. Most other submissions have been to the effect that more capital goes out of the province than comes back into it and your contention is that apparently the money is coming in on a capital basis rather than going out?

HON. MR. BLAKENEY: As a government that is true. In the private sector it is not true. I would think if all the money that was generated here in terms of corporate profits or life insurance premiums stayed in the province it might be a different thing as to whether we were a capital importer or exporter but the government borrows from outside.

COMMISSIONER BROWN: It is the over-all picture you would have to look at.

HON. MR. BLAKENEY: Not as a government. We have got to know that we can meet the interest. When we borrow the money we have got to know that we can meet the interest and we can get some of it out of taxes.

COMMISSIONER BROWN: I was thinking as a government representing the whole of the province you

have to look at the whole capital flow.

HON. MR. BLAKENEY: We have to look at the whole capital flow, yes, but we are certainly not prepared to act as a government in this respect purely. We have to act as an enterprise because we have to deal as an enterprise. We cannot stop the capital flow, we cannot tax it. We have none of the tools and we do not suggest we should have. I do not think the provinces ought to have.

THE CHAIRMAN: It is time, I think, for adjournment. We will now adjourn until 2.30 P.M.

(At 12.30 P.M the hearing adjourned until 2.30 P.M.)

--- On resuming at 2.30 P.M.

THE CHAIRMAN: We shall now resume.

COMMISSIONER BROWN: Dealing with the question of the problems of municipal financing in Saskatchewan, you refer to the size of the issues as not being large: What do you mean by this? What is "large" and what is "not large"? Would you give us more explicit -- what is the average size of the municipal loan?

HON. MR. BLAKENEY: Outside of the major cities the average issue would be $40,000, $50,000 or $60,000.

COMMISSIONER BROWN: And this would be serial issues?

HON. MR. BLAKENEY: They are almost always serial. I think any issue of that size would be serial.

COMMISSIONER BROWN: And the problem really is that these are in most cases too small to attract an institutional investor, and therefore they have to be sold on a retail basis?

HON. MR. BLAKENEY: Yes. Over the last little while there have been some successes in creating a small institutional market in Saskatchewan. Some of the institutions have taken a little bit. However, the earlier part of your statement is correct.

COMMISSIONER BROWN: You suggest encouraging the investment dealer -- not the organization, because they don't sell -- but the investment dealer to deal in these more: Have you any real suggestions as to how this may be accomplished?

HON. MR. BLAKENEY: I want to say, firstly, the way we work it now, whereby the province agrees to buy a portion of an issue from the dealer who underwrites it, or takes it on an option basis, we feel this does provide a considerable incentive to the dealer. He knows he has a market for a portion, and I think, even more important, he knows he is unlikely to be badly stuck on any particular issue if it should be a sour one. I don't know just how one would phrase this, but what we are looking at really are perhaps smaller firms, or larger firms which would set up a department to deal with this. The industry in Canada is divided really between the I.D.A. members and the rest; and the rest in this part of the world are usually very small dealers. We don't really have anyone who is set up to market the smaller issues

except to the extent the I.D.A. dealers may set up a department to do this. This is a statement of goal rather than how we would achieve it and, frankly, we have a couple of statements in here where we say it would be desirable and we don't know how to bring it about.

COMMISSIONER BROWN: There is one small point of apparent contradiction, and I was wondering if you would clarify it. In paragraph 81 you refer to the government purchasing up to 50 per cent of these issues, and in paragraph 83 you say rarely does the treasury purchase over 50 per cent. Is it a policy to buy up to 50 per cent and not more?

HON. MR. BLAKENEY: Pardon?

COMMISSIONER BROWN: Is there a contradiction there? One would seem to say you have a policy to buy up to 50 per cent, and the next paragraph says that occasionally you buy more than 50 pe cent.

HON. MR. BLAKENEY: I think that is it. We have a policy of buying up to 50 per cent, but on occasion ...

COMMISSIONER BROWN: You change your policy?

HON. MR. BLAKENEY: ... we vary the policy because a particular dealer or municipality may be in particular sort of trouble, and this is rarely decided upon in advance. It is usually a bale-out operation in the sense someone has started out on the 50 per cent policy and for some particular reason has run afoul.

COMMISSIONER BROWN: Then you explain why it

[illegible] the D.A. [illegible] may set up a department to do this. This is a statement of goal rather than how we would do it and, frankly, we have a couple of statements in here where we say it would be desirable [illegible] to know [illegible] about.

COMMISSIONER [illegible]: There is one small point of agreement [illegible], and I was wondering if you would clarify [illegible] to the management [illegible] of those [illegible], and in paragraph [illegible] to buy up to 5 [illegible] percent [illegible].

COMMISSIONER [illegible]: [illegible] to say [illegible] buy up to 5 percent [illegible] that [illegible] buy more than 50 [illegible].

MR. [illegible]: I think that is it. [illegible] have a policy [illegible] buying up [illegible] percent, [illegible]

[illegible], MR. [illegible]: [illegible] the policy encourage a [illegible] in particular [illegible] limited [illegible] operation [illegible]

is you have not considered guaranteeing these municipals, and I was wondering if you considered guaranteeing certain types of them as some other provinces do: For example, British Columbia will guarantee certain public utility issues of the municipalites, such as self-liquidating water and sewers, and your municipalities have these problems, and also the rural telephones. Have you at any time considered the possibility of guaranteeing that type?

HON. MR. BLAKENEY: I think we would have to say no. Obviously, it has been brought under review. Naturally, most of the financing problems of local governments have at one time been brought under review, but I think no serious consideration has been given. We think we would be hard pressed to differentiate between various types of local government security, and for the reasons we have outlined in the brief we feel that the method of buying a proportion is as good or a better method than guaranteeing.

COMMISSIONER GIBSON: I would like to ask a question about the sale of municipal securities. You say that two Saskatchewan firms and one Toronto firm have been reasonably successful: Is this a trend? Is there an improving market developing for your municipal securities? Have these people got some technique that is likely to spread?

HON. MR. BLAKENEY: I think the answer to that is yes, and there could be a number of reasons for this. They are developing a market in Saskatchewan,

and I think this is just because there is some capital here now when there wasn't 10 years ago. I don't think there was any loose money in Saskatchewan in 1945 or so, and we have generated some, as any economy with reasonable prosperity will. There is some money now, and this has led to some success. A certain amount of rationalization in local governments, particularly with regard to hospitals and schools, has improved their credit, because they are a better type of municipal government.

COMMISSIONER GIBSON: And increasing the size of the units -- is there a trend in that direction too?

HON. MR. BLAKENEY: Well, there is certainly a trend in that direction. I certainly would not estimate the speed with which this will come about. I think there are markets in the east being developed a bit more. I think we are having better success in the last few years than we did in the early 50's.

COMMISSIONER GIBSON: On the subject of statistics, you suggest it would be useful if all financial institutions were required to publish their holdings of securities. This is already done, as I understand it, by the insurance companies; there is a little book of their holdings. I think it is done by a number of the investment trusts. What have you got in mind? I suppose the other major area where securities are held are pension funds?

HON. MR. BLAKENEY: Turst companies, primarily. There are pension funds and trust companies as such,

I think, are the ones we had in mind. We are not aware of any published data on what securities trust companies hold. Perhaps we have overlooked it.

COMMISSIONER BROWN: On that, it is the question of the use to which it is put. Institutions naturally tend to think -- certainly, they make the point that in their investment policy they are guided by what they think is the best investment available at the best term and rate at the time.

HON. MR. BLAKENEY: Yes.

COMMISSIONER BROWN: I wonder to what extent you think they would be reluctant to voluntarily supply this information on the basis of putting themselves in the position of being subject to regional pressures? Of course, that is your object in part, isn't it?

HON. MR. BLAKENEY: I don't know whether "regional pressures" is the word, but here is a whole series of governments trying to make rational decisions about borrowing in Canada, and here is a large block of investments that we know nothing about, and to this extent you then remove rationality from the money market -- from the investment field. You just don't know what you need to do to sell bonds. You don't know who is buying your bonds or who is not, and to this extent you cannot apply any reason to your problems. I would think to the extent that pressures might be applied, they may be perfectly proper pressures. I would not see why, for example, trust companies should be shielded from pressures and

insurance companies not.

COMMISSIONER BROWN: I think there is a difference in the people for whom the companies are acting too. After all, trust companies are frequently handling individual trusts, and if they start to be subject to pressures in the way in which they handle them, the direction in which they find their investments, I think they would tend to lose some of those trusts.

HON. MR. BLAKENEY: I suppose it is possible. This just assumes that people are entitled to have a great aggregation of capital that they tell nobody about, and it is a nice question.

COMMISSIONER BROWN: This is individuals too.

HON. MR. BLAKENEY: Oh yes, but they don't have to publish how much is held in the particular trust account of any individual. All we would call for would be a statement of their aggregate holdings.

COMMISSIONER GIBSON: On the question of how institutions in particular might be persuaded to hold more provincial and municipal securities, you suggest three possible ways of achieving this: One is the higher rates of interest, but I take there is no enthusiasm expressed for that course? This is Section 91, 92 and 93 of the main brief.

HON. MR. BLAKENEY: That is right.

COMMISSIONER GIBSON: You say there are strong reasons against that, and you go on to talk about the possibility of a federal requirement for increased investment in provincial and local government

COMMISSIONER BROWN: I think there is a difference in the people for whom the companies are acting too. After all, trust companies are frequently handling individual trusts, and if they start to be subject to pressures in the way in which they handle them, the direction in which they find their investments I think they would tend to lose some of those trusts.

HON. MR. LANGFORD: I suppose it is possible. This just assumes that people are entitled to have a great appreciation of social [illegible] they [illegible] money about, and it is a nice question.

COMMISSIONER BROWN: This is individuals too.

HON. MR. [illegible]: [illegible] but they don't have to publish [illegible] in the [illegible] investment of [illegible] [illegible] would [illegible] to a statement of their [illegible]

COMMISSIONER [illegible]SON: On the question of the institutions in particular might be persuaded to hold more provincial and municipal securities you suggest three possible ways of achieving this: One is the inference of [illegible]. But I think there is no particular expressed for that one too. This is Section 34, 59 and 60 of the main brief.

HON. MR. LANGFORD: That is right.

COMMISSIONER [illegible]: You say there are strong reasons against that, and you go on to talk about the possibility of a federal requirement for

bonds. How would a thing like this work from a practical point of view? Would you suggest a law that fixed a certain proportion of a portfolio in municipal and provincial bonds?

HON. MR. BLAKENEY: This certainly would be one of the ways, and under the insurance company -- under the appropriate insurance legislation, whatever the Act is -- might be required to hold not less than 25 or more than 40 per cent of its investment portfolio. This is obviously one of the techniques that could be used.

COMMISSIONER GIBSON: You are not particularly advocating it?

HON. MR. BLAKENEY: Well, we are advocating the result. Whether this particular technique would be the one to achieve the result, I think we would not necessarily advocate this as opposed to some other technique.

COMMISSIONER GIBSON: If you required people as a matter of law to hold securities, isn't it possible this might affect their desire to hold them?

HON. MR. BLAKENEY: Yes, I suppose so.

COMMISSIONER BROWN: It would tend to have them hold the minimum requirement?

HON. MR. BLAKENEY: That is right; this is possible. We suspect there are these rules now; I don't know. You people would know much better than we -- that some of the insurance companies, in fact, have pretty strict conventions as to the proportion of

their portfolio they distribute between mortgage money and provincials and corporates.

COMMISSIONER GIBSON: I don't know about this. I suspect these are ideas, and the change in the process of time and circumstances and certain habits or thoughts, and as between institutions too. But, the other thing you suggest under this heading is the possibility of some form of tax incentives to increase holdings of provincial and municipal holdings: What sort of thing are you thinking of there?

HON. MR. BLAKENEY: Here I think one could think of a whole range of tax incentives: Everything from saying that income from provincial securities would not be taxable income; everything from that particular proposition -- which I don't particularly advocate -- to a proporation which would say that no registered retirement plan or pension fund would be registerable pursuant to the income tax unless it had X per cent of provincial or municipals. As I say, there are almost an infinite number of tax incentives one could build in.

COMMISSIONER GIBSON: Wouldn't that produce demands on the part of industries and other groups for similar treatment?

HON. MR. BLAKENEY: Yes, no doubt. I am not aware that other groups do not ask for tax incentives at the present time.

COMMISSIONER BROWN: Delving into this one area further, would you then lay down they ought to have 5 per cent of Saskatchewan bonds in their

provincial holdings?

HON. MR. BLAKENEY: No, our present thinking is that you would have to permit the institutions to reward or penalize provinces, if I may put it this way, for financial prudence, or as a result of their policies. We think ten or a dozen provincial credits is enough to choose from. Institutions could decide, if they thought Saskatchewan were being financially improvident, they could buy Manitobas or Ontarios and get the message across to Saskatchewan. We would not necessarily suggest they must buy a given percentage of any given particular group. We think this would be building in too much rigidity.

COMMISSIONER BROWN: I was just wondering how much you gain, because at the moment the spread between Canadas and Provincials is less than it was some time ago, so the provinces relatively are doing better than they were -- better than the historical average, I suggest.

HON. MR. BLAKENEY: I think what we are getting at here, whether we are right or wrong, is that there are conventions in portfolios saying they ought to hold 25 or 30 per cent in provincials -- or 50, whatever it may be -- and that these conventions, because of the relatively small number of major investors, are very important things. We have a very concentrated industry in Canada, or group of investors, and the capital requirements of provincial and local governments are going up, and they are probably the single segment of our national economy which is

increasing the fastest, and we think the spending of provincial and municipal governments as compared with federal government spending or private spending will show this, and we doubt whether the conventions reflect this. We doubt whether they change as fast as the needs in the economy. We are suggesting they have an opportunity to re-examine their conventions.

COMMISSIONER BROWN: These conventions vary completely against certain money. One or two companies would never touch municipal bonds at all and others buy large numbers?

HON. MR. BLAKENEY: Oh yes.

COMMISSIONER BROWN: I think there would be some dangers, would there not, in trying to implement too rigid a requirement in this field?

HON. MR. BLAKENEY: Yes, if we felt that a split investment policy of major investors could be introduced in some other way we would certainly prefer some other way because after all legislation builds in its own rigidity and this is a simple argument against us. We are just thinking that this needs to be looked at.

COMMISSIONER GIBSON: Mr. Chairman, I think we have covered the section on the government of Canada as a source of funds pretty well in our discussions this morning so I do not have any more questions at the moment, sir.

COMMISSIONER BROWN: I overlooked a portion here that I was going to talk about and that was in connection with your technical paper and I wonder if

you could give us some measure of your own philosophy about this very point we have just been discussing, that is, that you yourselves divide up your own funds into various categories and they seem to vary between the funds?

HON. MR. BLAKENEY: Yes. That is a good question. I feel that our particular funds have reacted rather thanacted. Our own particular holdings as set out in Table I of the Technical Paper show the consolidated funds and miscellaneous funds and here the philosophy is fairly clear, that we are simply looking almost exclusively for liquidity there and that is the nature of the fund. It is just a temporary resting place and you can see all the monies on the short term in one kind or another. Our sinking fund policy is such that we set up a sinking fund for each individual issue and into that individual issue -- into the sinking fund for that individual issue we attempt to put the securities of that issue and it follows, therefore, that the great bulk of the money in the sinking fund will be Saskatchewan's and where there is other money in it it is usually just because some of our own money of the bonds of that particular issue was not available and we will buy another provincial or something that has approximately the same maturity date. It is a fairly obvious policy. The school lands fund is a fund which is a special investment account. The name is rather deceptive. It is a special investment account, a resting place for bonds which we may want to buy and

[illegible] us some measure of your own philosophy about this very point we have just been discussing, that is, that you yourselves divide up your own funds into various categories and they seem to vary between the funds?

HON. MR. BLAKENEY: Yes. That is a good question. I feel that our particular funds have reacted rather than acted. Our own particular holdings as [illegible] in Table I of the Technical Paper show the consolidated funds and miscellaneous funds and here the philosophy is fairly clear that we are simply looking almost exclusively for liquidity there and that is the nature of the fund. It is just a temporary resting place and you can see all the monies on the short term in one kind or another. Our sinking fund policy is such that we set up a sinking fund for each individual issue and into that individual issue -- into the sinking fund for that individual issue we attempt to put the securities of that issue and it follows, therefore, that the great bulk of the money in the sinking fund will be Saskatchewan's and where there is other money in it it is usually just because some of our own money of the bonds of that particular issue was not available and we will buy another provincial or something that has [illegible] the same maturity [illegible]. It is a fairly

transfer into other funds as openings appear. We have therefore two desires here, one to stay liquid, and for the most part we will be buying Saskatchewans which we are going to put into the sinking fund when a hole appears, as you might say.

COMMISSIONER BROWN: What is the long-range purpose behind this particular fund?

HON. MR. BLAKENEY: Well, I think just that. It is not to achieve anything but two things; one is to provide a temporary vehicle for us to move money, a fund from which we can buy bonds which we know we will want for particular sinking funds or particular other funds at a later date and, secondly, to buy Saskatchewan local government securities. To the second extent it is a municipal financing fund.

COMMISSIONER BROWN: Have your forecast a possible rate of interest?

HON. MR. BLAKENEY: Of this fund?

COMMISSIONER BROWN: Yes.

HON. MR. BLAKENEY: No, it is not likely to increase rapidly at all. It is a relatively static fund.

COMMISSIONER BROWN: How about its income, does its own income remain in the fund?

HON. MR. BLAKENEY: No.

COMMISSIONER BROWN: It goes into the consolidated revenue?

HON. MR. BLAKENEY: Yes. I think that you may be able to draw from the increase in local government holdings here some idea of the changing complexion of

transfer into other funds [illegible]. We have

therefore two desires here, one to stay liquid, and

for the most part we will be buying [illegible]

which we are going to put into the sinking fund when

[illegible], as you might say.

[illegible] purpose behind this [illegible]?

HON. MR. [illegible]: Well, I think just

that. It is not to achieve anything but two things;

one is to provide a temporary vehicle [illegible] to

move money [illegible] from which we can buy bonds which

we know we will want for next year [illegible]

or particular [illegible] at a [illegible], and secondly,

to buy [illegible].

The second [illegible].

[illegible]

[illegible]

HON. MR. [illegible]

[illegible]

[illegible]

HON. MR. [illegible]

[illegible]

[illegible]

the fund. You will see that the number of local government bonds has increased from $1 million 3 in 1955 to $8 million 8 in 1961 and to that extent you could say that it is being used increasingly as the local government financing fund.

No policy on its ultimate disposition has been made but a policy to some extent evolved in there.

COMMISSIONER BROWN: You refer to the industrial development fund. That does not appear on these figures.

HON. MR. BLAKENEY: No, it only has, I would think, about a couple of hundred thousand dollars in money which is not lent out to borrowers of industrial development loans.

COMMISSIONER BROWN: That brings up another point we do not seem to have anywhere in the figures and that is how much is out?

HON. MR. BLAKENEY: I do not think it is probably there.

COMMISSIONER BROWN: I am sorry, apparently I missed this.

HON. MR. BLAKENEY: About $ 6 million.

COMMISSIONER BROWN: Oh yes, I beg your pardon. You have a committee sitting on this, have you?

HON. MR. BLAKENEY: That is right.

COMMISSIONER BROWN: A full-time political committee or is private business represented on it?

HON. MR. BLAKENEY: No, this is a full-time committee of officials of the government. There are not

extra governmental representatives on it. It is straight government.

COMMISSIONER BROWN: Civil servants?

HON. MR. BLAKENEY: Civil servants.

COMMISSIONER BROWN: The other matter I was going to ask about was the student aid fund as a matter of pure information. Presumably it does not have any investment because I assume it is all out in loans to students or its interest?

HON. MR. BLAKENEY: It loans the interest really. The corpus of the fund is $1 million and will be $3 million. At the end of this month it will be $3 million. This is invested and the interest is used to lend to students.

COMMISSIONER BROWN: So it is growing all the time as the interest accumulates and as the loans are repaid?

HON. MR. BLAKENEY: It will grow. Most of the loans do not attract very much interest. The loans are interest-free until two or three years after graduation, something like this, so it really does not grow very much.

COMMISSIONER BROWN: But it grows by the amount of the interest?

HON. MR. BLAKENEY: Yes, we lend the interest and the repayments, each revolving.

COMMISSIONER BROWN: That is all I have, Mr. Chairman.

THE CHAIRMAN: The next subject to be dealt with is private and co-operative borrowers in the

entire government [illegible] [illegible] [illegible] on it. It is [illegible]

[illegible] [illegible] everyone.

COMMISSIONER BROWN: [illegible] [illegible] appropriate?

HON. MR. [illegible]: [illegible] [illegible].

COMMISSIONER BROWN: The other matter I was going to ask about was the [illegible] and [illegible] as a matter of pure [illegible] [illegible]. Presumably it does not have any investment because [illegible] [illegible] it is all out in loans to students or [illegible] [illegible] [illegible].

HON. MR. [illegible]: It [illegible] the interest really. The [illegible] of the [illegible] is $[illegible] million and will be [illegible] million. At the end of that month it will be [illegible] million. [illegible] [illegible] [illegible] the [illegible] is used to lend to [illegible].

COMMISSIONER BROWN: [illegible] do [illegible] is [illegible] [illegible] [illegible] the interest [illegible] [illegible] [illegible] [illegible] loans [illegible]?

HON. MR. [illegible]: [illegible] [illegible] [illegible] [illegible] [illegible] the loans [illegible] [illegible] very [illegible] [illegible] [illegible] [illegible] loans are [illegible] [illegible] [illegible] [illegible] [illegible] graduation, something like that [illegible] [illegible] [illegible] [illegible] [illegible].

COMMISSIONER BROWN: [illegible] [illegible] [illegible] the amount of all [illegible]?

HON. MR. [illegible]: [illegible] [illegible] [illegible] [illegible] [illegible] and the [illegible] [illegible] [illegible].

COMMISSIONER BROWN: [illegible] I [illegible] [illegible].

Saskatchewan economy, the brief paragraphs 98 to 132.

COMMISSIONER HARROLD: Mr. Chairman, perhaps I could ask several questions here. In the first part of this section some of the ground has already been covered as to private borrowers but I think we get to the position on page 36 where you say that as far as small borrowers are concerned they are not too different, they have the samedifficulties elsewhere in Canada as they do in Saskatchewan although you see some special difficulties here in Saskatchewan that they might not have elsewhere but do you detect any difference now between now and immediately following the war in the pattern for borrowings by small business? Is there any change as far as investors are concerned?

HON. MR. BLAKENEY: There are two major differences. There are many more people trying to borrow. We think there are many more private businesses involved today and think there has been some improvement in the facilities for private business borrowing. Our own Industrial Development Fund has helped. There is a little note here indicating "much greater participation of the I.D.B." You will see in 1961 they lent in Saskatchewan one and a half times as much -- well, this is perhaps not accurate because it is a percentage figure but you can see a steady increase in their participation in Saskatchewan in percentage terms and it is there in dollar terms too but I have not

The other federal programme, I think, the

programme of aid to small businesses is assisting somewhat. We think there is some improvement.

COMMISSIONER HARROLD: I notice in Section 106 you use the phrase "It has been repeatedly alleged". Would you go any further than that as far as descriptions of small businesses are concerned on the question of the fact that in tight money policies they were affected more by the chartered banks restricting credit than the other people were? Would you be prepared to go any farther than in this sentence where it says, "It has been repeatedly alleged"?

HON. MR. BLAKENEY: Well, it is pretty difficult to mount evidence. As I recall the evidence to the Cairncross Commission in the Atlantic provinces this allegation was made repeatedly to that Commission. We believe it to be true here. When there is a credit restriction policy it is a little difficult to say. We know that the impact is felt very strongly here. We suspect that it is felt more strongly here than elsewhere. This, I think, no one can prove. Mr. Johnston may have something to say on this.

MR. JOHNSTON: Might I just mention this that I think the Governor of the Bank of Canada to my recollection drew attention to this in his annual report in 1957. One can assume that because he considered it to be of enough importance that he made a comment on it that it is important. Similarly Professor Galbraith wrote an article in the Review on Economics and Statistics at Harvard alleging that this was the

programme of aid to small businesses is catching

somewhat. We think there is some improvement

COMMISSIONER HAMMOND: I notice in Section 106 you use the phrase "it has been repeatedly alleged". Would you go any further than that as far as descriptions of small businesses are concerned on the question of the fact that in tight money policies they were affected more by the chartered banks restricting credit than the other people more? Would you be prepared to go any further than in that sentence where it says, "it has been repeatedly alleged"?

HON. M. [illegible]: Well, it is pretty difficult to obtain evidence. As I recall the evidence to the [illegible] Commission [illegible] this allegation was made repeatedly [illegible] we believe it to be [illegible] restriction, [illegible] it was [illegible] to [illegible] we know that [illegible] in fair [illegible] we suspect that it is [illegible] more [illegible] than elsewhere. This, I think, no one can prove. [illegible] Johnston may have something to say on this.

MR. JOHNSTON: Might I just add, on this line I think the Governor of the Bank of Canada, to my recollection, drew attention to this in his annual report in 1957. One can assume that because he considered it to be of enough importance [illegible] he made [illegible] point that it is important.

[illegible]

case in the United States so I think all I can say is that those who have studied the situation seem to exhibit a fair degree of unanimity but it is a problem which is extremely difficult to mount specific evidence on.

COMMISSIONER HARROLD: You refer here to the specific difficulties here in Saskatchewan or on the Prairies (I think you used that word) of financing these small businesses. Has the Saskatchewan government done anything to familiarize the rest of the country with the projects, etc., or have you done anything in the way of changing the opinion that goes abroad as to small businesses etc., in Saskatchewan in order to get more investment in this field?

HON. MR. BLAKENEY: We have certainly done something. Whether we have done enough is open to conjecture, I am sure. The Department of Industry and Information has spread a good deal of information about the opportunities for small business in Saskatchewan. They have put out information and in surveys of industries have attempted to isolate their investment opportunities and work up brochures on them which they then hand out to various people throughout North America and they put out a little sheet called "Industrial Saskatchewan" which attempts to isolate such opportunities and they have a staff of people who are prepared to do additional research on any particular project which an investor might exhibit some interest in. Whether this is enough,

of course, no one knows.

COMMISSIONER HARROLD: But you have done something in this field?

HON. MR. BLAKENEY: Oh yes, I think we have a fairly active programme in industiral development. We have had a promotional group very active in this field since 1949 or 1950.

COMMISSIONER HARROLD: In Section 110 you refer to your own industrial development fund and also to the Industrial Development Bank and you suggest that you might consider a partnership between the Industrial Development Fund and the Industrial Development Bank. Do you not foresee some difficulties if there were, say, eleven governments involved in a combined effort as far as the I.D.B. was concerned, rather than one?

HON. MR. BLAKENEY: Oh yes, I would see quite a few difficulties. We failed to make our position clear here. What we really thought was some closer association or partnership in each individual area. It appears to us that the present structure of the Industrial Development Bank is available for making loans of certain types. Similarly, some Industrial Development Funds are available -- the Manitoba funds, our own fund, and Alberta has a fund of a slightly different emphasis but a fund of that type.

Then, we have in each province what amounts to an industrial promotion department of the government which is attempting to attract industry and to service

requests for information about establishing industry. We think that there might be somewhat better results if the provinces and the federal agency were a little more closely co-operating. We think the federal agency has a little more access to funds than most of the provinces do. On the other hand, the federal agency is not particularly dynamic in promoting the industrial development. Now, that is not the function of the federal government and I am making no criticism of it when I say that whereas by and large the provincial funds are dynamic and I think this might promote a little co-operation between the promoters and the bankers, may I say, in the field of promoting industrial development.

COMMISSIONER MACKINTOSH: Is there anything to prevent your development officials generating applications to the Industrial Development Bank? It has to be done on application.

HON. MR. BLAKENEY: No, not at all. They do just that. This is not a major point. We just feel that it may be a little more responsive if, let us say, the credit committee included a couple of representatives of the provinces who may bring a sort of eagerness for industries which the I.D.B. officials do not feel. As I say it is not a major point.

COMMISSIONER HARROLD: There is not too much co-operation at the present time then between your Industrial Development Fund and the I.D.B. in

the province of Saskatchewan?

HON. MR. BLAKENEY: Not between the fund and the I.D.B. I should emphasize that the province's arrangements in this regard are split between the Industrial Development Fund which acts as a lender or banker and the Industrial Development Fund of the Department of Industry which acts as promoters. There is a fair amount of co-operation between the promotional group and both the provincial fund and the I.D.B. I am far from saying that there is any particular lack of co-operation. We just feel that our own promotional officials are able to bring a little enthusiasm to bear on the Industrial Development Fund and I think that they could also be able to bring something to bear on the Industrial Development Bank. As I say, it is a thought.

COMMISSIONER HARROLD: The section on page 41, the section on corporate borrowing ---

COMMISSIONER GIBSON: Mr. Harrold, before you go on to that there is just one remark that Mr. Johnston made that I would like to explore a little further. You said there was a fairly great unanimity on this subject, that is, the banks tend to hold small credit back when money is tight. Could you document it a little more? I have a pretty fair impression of what Mr. Coyne said and I do not think he was very definite about it.

COMMISSIONER BROWN: According to Mr. Galbraith, who is an American, for the other source, is there really a fair degree of unanimity on this?

MR. JOHNSTON: I suppose one develops an impression of unanimity from one source, and I can only cite the ones to which I have referred. Professor Cairncross, in his study of the Atlantic Provinces, pointed out at the same time a general impression. He said it is impossible to give documentary evidence. This is in fact the case, although he did point to particular banks -- not by name, but particular branches -- where there was a tendency to restrict credit to the less credit-worthy individual. I gain this impression also from talking to businessmen in the province who make the same allegation. I acknowledge Mr. Coyne did not in any sense make an assertion this was case. I say only that he felt it to be of sufficient importance he should draw it to the attention of the chartered banks and urge them not to come back on these cusomters in times of tight money -- in fact, that they should lean in the other direction.

COMMISSIONER HARROLD: Section 119: The Canadian Co-operative Credit Society, in the initial stages -- to supply them with a little more capital: Would you like to enlarge a little more on that? This is just a recommendation, I assume?

THE HON. MR. BLAKENEY: Yes, this is an optional sort of recommendation. I think elsewhere in the brief we say what governments have been called upon to finance co-operative organizations in the past. We think here in Saskatchewan of the Wheat Pool which receives governmental assistance, the

Co-op Creamery which receives governmental assistance, the C.C.I.L. which received financial assistance from the three Prairie Provinces, as I recall it, the Consumers Co-op Refinery which received some financial assistance by way of loans or grants -- I am sorry, a guarantee. This has been the pattern of financing major co-operative development on the Prairies. We are conscious of the fact that co-ops generate a fair amount of their own capital, and this is much the most desirable way to finance co-operative organizations, and if they are going to have to call upon outside sources and governments -- and, as we have seen, the three Prairie governments have been in the business -- it may well be the best way to do this would be through the co-operative financial organizations and the assistance might most easily and conveniently be given to the central co-op -- the Canadian Co-operative Credit Society. You might well argue this does not follow, but I thinkyou can see the line of argument.

COMMISSIONER HARROLD: There is one more section in this particular section, and that is the farm borrowers, and when you get to the end of that section you do make several very definite recommendations -- as a matter of fact, there are five of them. Turning first to the long-term borrowing, the Farm Credit Co-operation and the federal F.I.L.A., there have been considerable changes in the last several years in this field, and you still feel there is more to do, that this does not meet the need as far

[illegible]

the O.S.T.L. which received financial assistance from the three Federal [illegible], as I recall, the Consumers Co-op Federation which received some financial assistance [illegible] loans or grants — I am sorry, a guarantee. This [illegible] the problem of financing major [illegible] we have [illegible] in the [illegible]. We are conscious of the fact that co-ops generate a fair amount of their own capital, and this is much the most desirable [illegible] co-operative organizations, and if they [illegible] to have to rely upon outside sources and [illegible] — and, as we have seen, [illegible] businesses — it may well be the only way to do [illegible]

[illegible]

[illegible] Consumers Co-operative [illegible] Federation [illegible]. [illegible] well [illegible] the [illegible].

[illegible]

similar to that [illegible] and then [illegible] term borrowing [illegible]

[illegible]

[illegible] two of which [illegible] the [illegible]

[illegible]

[illegible]

as farm borrowers are concerned?

HON. MR. BLAKENEY: Yes, and I wonder if I might make a little preliminary statement on this, that this whole section on farm borrowing, I think, assumes that some social factors are at work as well as pure economic factors. It assumes that the family farm as a unit is something which is worth preserving as a method of economic organization in Canada. If you don't make that assumption, some of these recommendations are a little difficult to defend. If you do make that assumption, then some of these are a little more defenceful. If you make that assumption, then you have to provide for some way for the transfer of farm units from one generation to the next, and you have to provide for some way in which an existing farmer on an uneconomic unit, a unit which is not sufficient -- too low a capital, too little land or too little cattle or too little machinery -- can find some way to finance. If these figures are right in here about the amount of money which is needed -- $200 million estimated by the Saskatchewan Royal Commission on Agriculture and Rural Life, to be necessary to make even conservative levels of adjustment in the industry as a whole -- an d if that is so, then clearly some fairly large capital amounts are needed. We then should acknowledge that compared with previous levels of activity, the new levels of activity of the Farm Credit Co-operation are very welcome indeed. I think they have changed their name and their policy, and it seems to me that

MR. HARVEY: Yes, and I wonder if I might note [illegible] concerning this, that this whole section on farm borrowing, I think, assumes that some social factors are at work as well as pure economic factors. It assumes that the family farm as a unit is something which is worth preserving as a method of economic organization in Ceres. If you don't make that assumption, some of these recommendations are a little difficult to defend. If you do make that assumption, then some of these are a little more defined. If you make that assumption, then you have to provide for some way for the transfer of farms from one generation to the next, and you have to provide for some way [illegible] to establish [illegible] economic unit, a unit which is [illegible] -- [illegible], and I believe [illegible] -- [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]

their activities are a good deal more beneficial in promoting this sort of adjustment than was previously the case.

As for F.I.L.A., I am not aware that their increased activities are a major factor.

COMMISSIONER HARROLD: They raised the F.I.L.A. from $5,000 to $7,500 about three or four years ago?

HON. MR. BLAKENEY: Yes.

COMMISSIONER HARROLD: This may not have met the need, but it was an increase?

HON. MR. BLAKENEY: Oh yes, we think $7,500 is a bit of a drop in the bucket as a limit for financing a modern farm plant.

COMMISSIONER HARROLD: Then you referred to some figures in paragraph 124 in which you suggest that $50 million were available to Saskatchewan farmers for the transfer of farm units in 1960, and yet in the next sentence you say this represents only a small part of the $200 million estimated by the Saskatchewan Royal Commission: Is this $200 million needed each year?

HON. MR. BLAKENEY: That is a per year figure, as I understand the recommendation of the Saskatchewan Royal Commission.

COMMISSIONER BROWN: Is this for improving existing farms?

HON. MR. BLAKENEY: This is to finance the transfer, by and large, either from one generation to another or from one farm owner to another in order to

assemble economic units. At a conservative estimate half of the farm units of Saskatchewan now are uneconomic in size, and if they are to be preserved on any permanent basis they will have to be re-organized into a smaller number of farm units.

COMMISSIONER BROWN: Would you make a social distinction between capital for improving existing capital, which is providing machinery, and capital to assist in transferring existing capital?

HON. MR. BLAKENEY: I don't make a social distinction, no, to the extent each is necessary in order to assemble a farm unit they perform the same service.

COMMISSIONER HARROLD: Going back to these figures, if you accept these figures as just about right, it shows you just had about one-quarter enough money. You may not be in a position to answer this question, but as far as the reasons why there was not more money available -- were there some requests turned down, or was there not enough funds, or were there not enough personnel in these federal organizations? I notice you have your own Family Farm Credit Act which, through the trust company, has some funds available.

HON. MR. BLAKENEY: I am advised that a substantial number of applications are turned down both by the Farm Credit Corporation and by the Co-operative Trust Company, which is operating a smaller plan, and in almost every case this is because these two organizations are operating on the basis of lending

on a security basis -- on some reasonable security cover, and on that basis they just cannot be financed; that is all.

COMMISSIONER HARROLD: You are suggesting it is the policy rather than the funds that are obstructing the larger amount of money being used for this purpose?

HON. MR. BLAKENEY: I think primarly yes; it is sort of the application of economic principles to a social problem.

COMMISSIONER MACKINTOSH: Surely, land transfers provide pretty much their own security?

HON. MR. BLAKENEY: Well, yes; there is a down-payment problem and also an annual re-payment problem. A farm unit is not like an apartment block which can be depended upon to have a cash throw-off each year. Regretably, a farm unit does not perform that way.

COMMISSIONER HARROLD: How about land values? If there are more funds available, what has been the land value position in Saskatchewan in the last few years? Have land values gone up or remained about the same?

HON. MR. BLAKENEY: It has varied from year to year. They advanced fairly rapidly in the early 50's, and they have been levelling out certainly, but I think there is 2 or 3 per cent per year that they have probably gone up. As I say, this has been fairly uneven, but I think this might be a fair figure.

I think, to allude to one of your earlier

points, there are some problems with loan limits. The Farm Credit organization seems to operate on the basis of 50 per cent of market value. I feel very uncertain in this, Mr. Chairman; and the Co-op Trust goes a bit higher than this, but each of them is operating with fairly low credit ceilings.

COMMISSIONER HARROLD: And would you say a fairly conservative policy to assessing land values and future earnings.

HON. MR. BLAKENEY: Those are two -- when I get into this field I don't see any particular relationship between land values and future earnings. There are others who profess to see this. I think they are fairly conservative in terms of land values, if land values are to be measured by what willing buyers and willing sellers are trading land at round about you last week or next week. If you are talking about any projection of long-term net earnings, this is a different subject altogether. I would not care to comment on that.

COMMISSIONER HARROLD: In recommendation No. 2 you say that these might take the form of flexible arrangements providing for pre-payment in good years, and the extensive use of the crop share plan. These plans do provide pre-payment in good years, do they not?

HON. MR. BLAKENEY: I think the plans permit this; I am not sure.

COMMISSIONER HARROLD: There is no penalty for pre-payment?

HON. MR. BLAKENEY: Oh, I don't think so, no. What I was wondering about -- and here I will have to consult -- is whether if you pre-pay, it comes off the tail end of the mortgage, or whether you can say, "I am pre-paying this year and I elect two years hence when I have a crop failure to assign it to that" -- I am advised it simply shortens the period, and this does not meet the argument at all.

COMMISSIONER HARROLD: You also suggest it should be tied more to the crop share plan rather than the fixed?

HON. MR. BLAKENEY: Yes, this is the suggestion. Obviously this has to be refined to some extent, but there are provisions in the Co-op Trust which provides for amelioration of interest and a deferrment of principal. As I recall it, the interest simply does not accrue, and the principal is deferred in years that are crop failure years.

COMMISSIONER HARROLD: This is what you mean by a more flexible plan?

HON. MR. BLAKENEY: Yes, this is certainly one of the things. There may be other areas for flexibility.

COMMISSIONER HARROLD: Income bonds?

HON. MR. BLAKENEY: Yes, that is right, income bonds.

COMMISSIONER MACKINTOSH: Aside from this trust company, has there been any development of this type of pattern? Years ago this was, you might say, the native pattern of selling land in Saskatchewan.

HON. MR. BLAKENEY: Yes.

COMMISSIONER MACKINTOSH: And no one seems ever to have made anything out of it on a larger scale?

HON. MR. BLAKENEY: It is being done; it is done by the Farm Credit Co-operation to some extent, and by the Co-op Trust, but it is not a pattern which is very adaptable to private investors. The whole structure of private investment is that you calculate your yield on an annual basis, and if the interest is not paid for a year people are concerned about it. Presumably they should not be, if the security is sound; and most of the investment houses, in fact, would not be at all disturbed financially if 5 per cent of their securities did not produce income in a particular year if they knew it was going to produce 5 years hence, and this is not the reaction which it would produce. As I say, this is the mores of the industry.

COMMISSIONER HARROLD: Your third recommendation -- I believe you have covered that and it merely suggests the capital requirements on machinery under F.I.L.A. be increased.

In your fourth you suggest the federal government should guarantee loans of credit unions to farmers on approximately the same terms as they are guaranteed under F.I.L.A. This would be one more field where the credit unions would be very much the same as the existing chartered banks, wouldn't it?

HON. MR. BLAKENEY: Yes, and I think I would take the position that credit unions in the restricted range of their operations perform the function of chartered banks within certain narrow limits, particularly in rural areas where in many cases they are the financial organization in the village. I would think this might have to be done fairly selectively, and it might have to be done through the credit societies, but I think it could be done.

COMMISSIONER HARROLD: There is nothing to restrict the credit unions from lending in this field now except they don't have this guarantee?

HON. MR. BLAKENEY: That is right.

COMMISSIONER HARROLD: As far as the chartered banks are concerned, I believe they have had very few occasion to call on the government as far as a guarantee is concerned, so do you suggest this would make too much difference as far as the credit unions are concerned?

HON. MR. BLAKENEY: I think just about the same amount as if we asked the chartered banks to do it without the guarantee.

COMMISSIONER HARROLD: The last one has to do with emergency credit. This is a fairly clear cut suggestion and I haven't any questions on that, except this request has been made from time to time and, I don't know, as far as the federal government is concerned they haven't agreed to guarantee -- to get into this field so far?

[illegible] and I think I would take the position that [illegible] the restricted range of [illegible] regulations perform the function of [illegible] particularly [illegible] are [illegible] village. I would [illegible] fairly selectively, and [illegible] through [illegible], but [illegible]

[illegible]

[illegible]

HON. MR. [illegible]

COMMISSIONER [illegible]

[illegible]

[illegible]

[illegible]

HON. MR. BLAKENEY: No.

COMMISSIONER MACKINTOSH: I might ask one on that emergency credit. What you mean is more systematic and pre-arranged patterns for what had been in the past ad hoc provision for emergency credit?

HON. MR. BLAKENEY: Yes, I think that is so. We have seen sort of snow bonuses and this sort of thing,acreage payments and one thing and another.

COMMISSIONER HARROLD: Seed grain loans?

HON. MR. BLAKENEY: Yes, seed grain loans are obviously fairly well organized in a sense and the programme seems to go on from year to year but all these othersare very much ad hoc.

COMMISSIONER HARROLD: Would you acknowledge such payments as an emergency credit?

HON. MR. BLAKENEY: Well, that is a nice question. The emergencies appear to me to be social rather than economic.

COMMISSIONERBROWN: Just before we leave this whole question I wonder if I could review a subject touched on this morning briefly and again briefly this afternoon. This is in connection with your Industrial Development Fund. I wonder if you could give us a picture of the policy behind the granting of such credits. Are they based on the fact that credit is not available elsewhere? Is it granted before or after it has been referred to the I.D.B. and what sort of interest rate structure do you use? Is it a variable structure depending on

monetary policy and monetary conditions?

HON. MR. BLAKENEY: Well, to deal with those one by one ---

COMMISSIONER BROWN: Or anything else you can think of.

HON. MR. BLAKENEY: Well, the fund is established. People who may borrow from it are by and large manufacturing industries or industries which are closely allied with manufacturing.

We prefer to lend to a new industry in the province. We are quite satisfied to lend to expand an existing industry and also satisfied to lend to a second plant but if there was an adequate supply of plants produced in the province we would be reluctant to lend to a manufacturer who was only going to compete with a number of existing plants. The object clearly is to increase the gross amount of production rather than to give a particular advantage to a particular firm.

With that in mind, then, this is roughly who is eligible. The lending limits as a rule of thumb are 50 per cent of the fixed capital. We do not normally lend for working capital purposes although we occasionally will lend more than 50 per cent of the fixed capital if the assets are of a nature which would be useful for other purposes, let us say, something in the nature of a general purpose building. Perhaps we would hew very close to our line if it were specialized machinery of some kind which would have virtually no resale value. Again, those are general

guide lines.

Now, as to whether we would lend, we attempt to have a borrower exploit other sources of credit. We would normally refer him to the Industrial Development Bank but we would not sort of demand from him a certificate that he had been turned down by the Industrial Development Bank. We do not have a fixed policy there except we frequently refer him to the Industrial Development Bank and tell him that he may as well get it there as use up our funds.

With respect to the interest rates, we have varied them somewhat with respect to whether our money was costing us a small amount or a large amount. Interest rates have varied from a low of $4\frac{1}{2}$ per cent, as I recall it, to a top of 7 per cent. They have been as high as 7 per cent and as low as $4\frac{1}{2}$ per cent and I do not know what they are now.

MR. JOHNSTON: About $6\frac{1}{2}$ per cent.

COMMISSIONER BROWN: And the term?

HON. MR. BLAKENEY: The term again is variable. Only on rare occasion have we gone over ten years. Usually we aim at a 5-year term. It depends again a good deal on the nature of the operation and the nature of the assets whether they have a long life. If it is a multi-purpose building we may agree to lend over a longer period and if it is specialized machinery on a fixed short-term basis.

COMMISSIONER BROWN: How about re-payment?

HON. MR. BLAKENEY: The re-payment provisions

vary a great deal. If the business is of a type which will respond to this we aim at a monthly re-payment. A good number of the loans are amortized so that there is a level payment over the whole term. Some others of them have a level of principal with the accrued interest so this gives you a declining level of total payments. Some have quarterly payments.

COMMISSIONER BROWN: Any annual payments?

HON. MR. BLAKENEY: I do not think we have any annual payments.

COMMISSIONER BROWN: How about equity, do you have any equity?

HON. MR. BLAKENEY: We have in recent years begun to take some equity positions. Where we may make a loan we feel that some of our money is essentially risk money because we simply do not have security cover and this happens from time to time even with this particular structure of security and then we on occasion have taken some equity s o that we would have the benefit of it.

COMMISSIONER BROWN: Do you take any equity options either direct or by way of conversion?

HON. MR. BLAKENEY: Yes, we have done that on at least one occasion. We have a guarantee fee stated in terms of common shares or alternatively of options on shares.

COMMISSIONER BROWN: Would you be prepared to tell us what your loss experience has been, if any?

HON. MR. BLAKENEY: Well, it has been very

good up to now. It would be a good deal less than, say, one-tenth of 1 per cent up to now. I think it fair to say that we anticipate that this rate cannot continue and that we will probably have a loss rate of 1 per cent or something like that over the next 10 years. It is hard to say but this sort of thing is easily possible with the sort of loans we are making. We are going to lose more, for sure.

COMMISSIONER MACKINTOSH: I think you might share some of your knowledge with the chartered banks.

COMMISSIONER LEMAN: Before we leave that section, Mr. Chairman, if I might ask one fairly short question. If you will turn to paragraph 113 again, which is back-tracking a little bit, co-operatives as borrowers. First of all, I was puzzled by one small detail there. I do not know if there is anything behind it but you started by talking about the big fellows in terms of total assets and then you talked about the little fellows in terms of net fixed assets. Is there a reason why you make that distinction?

HON. MR. BLAKENEY: Well, I think the answer to that is just the figures we could lay our hands on in the time we had to put the brief together.

COMMISSIONER LEMAN: Well, this is not the end of my question now. We are in the area of co-operatives here and the implication here is that the big fellows can take care of themselves pretty well because of size and the little ones do not have that same power. Yet, if you multiply 309

consumer associations by $42,600 average you get quite an amount and 543 service associations by $5,000 and you also get quite an amount. Do these people, members in the co-operatives, sort of gang up together?

HON. MR. BLAKENEY: Yes, they do very much so. I think virtually all of those will be members of credit societiess or members of a credit union which will be a member of the credit society.

COMMISSIONER LEMAN: So that in fact as a group they might be just as well off as those big ones you have mentioned for borrowing power etc.?

HON. MR. BLAKENEY: Well, the Wheat Pool, of course, they sell short-term paper when they sell it and they can command large credits from the chartered banks, and I suppose the credit society might do this but certainly people grouped together are not quite as economically viable as the Wheat Pool will be but they have done fairly well as a group. These people have developed a remarkable amount of capital from their own resources and built a large asset structure without very much outside assistance but they do have some big problems there, no doubt about that.

COMMISSIONER LEMAN: I expected that they ought to have been charged at lesser figures than you have there because if you relate it to net fixed assets most of them are mostly working capital type of investments.

HON. MR. BLAKENEY: Well, they are a factor

all right, there is no doubt of that.

THE CHAIRMAN: We shall adjourn for 10 minutes.

--- Recess.

THE CHAIRMAN: We shall now resume. Mr. Harrold would like to ask one more question at this stage.

COMMISSIONER HARROLD: Just before we leave this section, Mr. Chairman, the fourth recommendation on page 46, I asked a couple of questions at that time. This has to do with the:

> "The Federal Government should guarantee loans by credit unions to farmers on approximately the same terms as the guarantee under the F.I.L.A."

We had the credit unions yesterday presenting their brief and there was nothing said in the briefs, as I remember it, about this question of guaranteeing loans to farmers for this purpose. Have you any way of knowing whether this is something the credit unions would prefer or not?

HON. MR. BLAKENEY: No, I think we do not. I think we were approaching this really from what we felt would provide credit for rural citizens who need credit. It may well be that the credit unions would not wish to participate in this programme. I am just not aware of what their position is on this. I assumedthat you had an opportunity to canvass this with them yesterday and I want to make clear that I was not presuming to speak on thei behalf. I was

simply expressing a point of view which, as it seems to us, would provide a solution for some of the credit needs of our rural Saskatchewan citizens and it may well be that there are impediments to this.

COMMISSIONER HARROLD: The only reason I asked it was that I do not remember that it was raised yesterday and I just wanted to clarify that question.

THE CHAIRMAN: Then, we will go on to the subject matter of financial institutions and the capital markets, paragraphs 151 to 174 of the brief.

COMMISSIONER LEMAN: Mr. Chairman, I would like to call your attention first to paragraph 152 to 154. Here, to quote you at the end of parageaph 152 you say:

> "We do not raise these points in order to argue the merits of small financial institutions against large ones but in order to point out that the channels through which investment funds flow in Canada are subject to large and growing rigidities."

And then later on, in paragraph 154, you suggest as a remedy for these things that these institutions should be given more prompting and direction into desirable patterns by the federal government and the monetary authorities. This was touched upon a little bit when we discussed the rigidites in the investment thinking of other lending institutions and you admitted that there was no use trying to

a point of view which, or it seems to us, would provide a [illegible] of the credit needs of [illegible] and it may well be that there are [illegible] in this.

COMMISSIONER [illegible]: [illegible] I asked it was [illegible] raised yesterday, and I just [illegible] clarify that [illegible]

THE [illegible] subject matter of [illegible] central [illegible], [illegible]

[illegible] like to call your attention [illegible] or [illegible]. [illegible]

[illegible]

[illegible]

[illegible] as a [illegible] should [illegible] desirable [illegible] the [illegible] [illegible]

replace the natural rigidity with a legal restraint which would also cause rigidity etc. How would you go about it in this case?

HON. MR. BLAKENEY: Well, of course, if we were going to place this under the statutory sphere of influence of the Bank of Canada we could be a good deal more selective than we could be with legislation. It would seem to me that if the Bank of Canada can make short loan decisions on the conduct that the chartered banks ought to follow, that they ought to have secondary reserve ratios or whatever it is and that they ought to expand credit or contract credit, by the same sort of combination of cajolling and request that goes on as between chart-ered banks and the Bank of Canada and possibly by strengthening the legal position they could encourage the purchase of provincial securities, discourage the purchase of provincial securities, encourage the purchase of municipals and discourage them etc. This would definitely be one of the ways that these organizations could be prompted and directed and that any legal restraints or conventional rigidities could be got around at least to some extent.

COMMISSIONER LEMAN: Therefore you would think of putting more teeth in this through powers of the Bank of Canada and therefore in order to keep a continuity in our thoughts there I would like to jump immediately to paragraphs 158 to 162.

As I understand those paragraphs, you suggest not only the Bank of Canada

reduce the seasonal rigidity, and [illegible] which would also [illegible]

[illegible]

[illegible]

We were going to place this under the [illegible] sphere of influence of the Bank of Japan as [illegible] be a good deal more self-[illegible] than we could be with legislation. It would seem [illegible] the Bank of Japan can [illegible] conduct that the chartered banks [illegible] that one ought to [illegible] percentage [illegible] or whatever it [illegible] or collateral [illegible] of [illegible] consolidation [illegible] thereafter, [illegible] the purchase of government securities, discounts, the purchase of commercial [illegible] the [illegible] This would [illegible] organization would be [illegible] [illegible] could be [illegible]

[illegible]

think of putting more [illegible] of the Bank of Japan [illegible] keep a [illegible] to go immediately [illegible]

should have none or practically no autonomy from the government, but that it should also be given addtional powers to approve lending practices of financial institutions as well as to use positive discretion to vary the impact of monetary policy on various sectors of the economy. With all the disagreement that we witness among autonomists at times, even with hind-sight, as to what are the true ailments affecting the economy and what are the best remedies to be applied, what safeguards, if any, would you propose to prevent this enormous power you visualize being misued either through error, misjudgment or even for political ends?

HON. MR. BLAKENEY: I don't know whether you can avoid the possible dilatorious results of the misuse of power by merely fracturing it up so that no one can exercise it. This principle of government, which obtains to some extent in the United States, is not one which I share. I seems to me, if we are going to make anybody responsible for the economic performance of this country, if it is true we can look to the federal government to promote the level of growth or the level of employment, and if this is so, if it is appropriate for citizens to say to the federal government, "It is your job to see the economy is operating at an appropriate rate of growth", if we think this right, then we have to give the federal government the tools with which it can achieve goals we are calling upon it to perform, and I think one of these is certainly the

have [illegible] of predictability on the government, but that it should also be given additional powers to improve liquidity [illegible] of financial institutions [illegible] have more positive discretion to vary the [illegible] of monetary policy on various sectors of the [illegible]. [illegible] agreement that the witness [illegible] even with hind-sight, [illegible] affecting the economy and [illegible] to be applied [illegible] propose to present [illegible] being [illegible] even for [illegible]

[illegible]

You can [illegible] of the [illegible] to [illegible] government, [illegible] United States, [illegible] to us, if we [illegible] for the [illegible] it is [illegible] present the [illegible] and [illegible] to say to the [illegible] government [illegible] to see [illegible] rate of growth. If we think [illegible] to give the federal government [illegible] it can achieve [illegible] [illegible]

monetary controls which reside in the central bank. I would have thought, really, that what we were calling for would not be appreciably greater powers than a number of central banks already possess. I think I will have to defer here to Mr. Johnston, if you push me too hard. I would say if we are trying operate our economy to achieve these economic goals, then it is just as well to have someone who can use the various tools which are available, and I would not see much benefit in fracturing it up.

COMMISSIONER LEMAN: It is just when you use words like "prompting" and "direction" -- you are in the positive field there. You are not establishing limits of operation; you are leading the horse to the water and making him drink too.

HON. MR. BLAKENEY: I don't know how the chartered banks got into the mortgage field, let us say, but I would suspect this was due to some prompting and directing from the Bank of Canada. I may be wrong on this. I think really almost all the controls which the Bank of Canada exercises over chartered banks come under the prompting and directing. Some of them are legal, but I think the other has no legal basis.

COMMISSIONER LEMAN: But, in effect, they now give them certain limits within which to operate.

HON. MR. BLAKENEY: Well, I would not be suggesting the prompting and directing should be on a day-to-day basis. I would think they might similarly set some limit within which they might work.

[illegible] a [illegible] in the central bank. I would have thought [illegible], that we are calling for would [illegible] greater powers than a number of central banks [illegible]. I think I will have to refer that to Mr. [illegible]. If you push me too hard, I would say if we are trying [illegible] our economy [illegible] these economic goals, then it is just as well [illegible] we can use the various tools which are available, and I would not see much benefit in [illegible] it.

[illegible]: It is just when you use words like 'controlling' and [illegible] in the [illegible] [illegible] [illegible] [illegible] on the [illegible].

HON. [illegible]: I [illegible] [illegible] say, but I would [illegible] this was [illegible] and [illegible] [illegible] of [illegible] [illegible] [illegible] [illegible] of [illegible] [illegible].

[illegible]: [illegible]

HON. [illegible]: [illegible]

[illegible] I [illegible]

I would not want to suggest the Bank of Canada should be acting as investment manager for all the insurance companies.

COMMISSIONER BROWN: I suppose we don't know how many times the Bank of Canada was unsuccessful.

THE HON. MR. BLAKENEY: I think this is true, and I think this is a fair comment, and to the extent it was successful it contributed to achieving the government's economic policies.

COMMISSIONER LEMAN: My next question also follows the same thought: Earlier in paragraph 20 you said that you would like to make it clear you don't shares the views of those who regard the expansion of governmental services with alarm and would seek to reduce them.

HON. MR. BLAKENEY: Yes.

COMMISSIONER LEMAN: Neither do you seem to have any fear of a measure of authority for certain of the arms of the federal government, and following that, in paragraphs 155 to 157, you suggest the establishment of a governmental compulsory and contributory pension plan which would assure an adequate pension to everyone at age 65, and would also protect everyone against inflation. You argument is based partly on the premise that in this field government can operate more efficiently and more comprehensively than private enterprise. You do not mention in that same context life insurance companies, although I suppose it would be also nice if life insurance policies also moved automatically with the

value of the dollar. At any rate, if all the savings going into life insurance and into pension plans throughout the nation were channelled on through the government, what percentage do you think would be left for the private sector in the field of investment?

HON. MR. BLAKENEY: Well, I could not quantify that. I would think I would want to see the evidence to suggest the private sector has been starved and the governmental sector over-financed in capital terms in the last 10 years. It does not occur to me this way, and I am not sure the adding to the government's sphere of a pension provision would mean that governments would attract too much of the available investment capital. If this was the suggestion, I would, I think, dispute it. I cannot marshal the evidence, but I don't think necessarily this would be so. It is true, of course, if life insurance was operated purely by the federal government, then there would be a very real concentration of investment funds. I would think larger single pools of investment capital with the life companies now -- that is, if they stayed out, clearly there would be a very large pool. To some extent they would change their portfolios and buy a few less Governments.

COMMISSIONER LEMAN: In a good plan there is often a tie-in between life insurance and pensions.

HON.MR.BLAKENEY: Yes.

COMMISSIONER LEMAN: And perhaps one would follow the other. I don't want to put words in your

value of the dollar. At any rate, if all of [illegible]

[illegible]

the government, [illegible] you think would be left for the [illegible] sector in the field of [illegible]

HON. MR. [illegible]: Well, I cannot quantify that. I would think I would want to see the evidence to support the premise before [illegible] has been started and the government [illegible] sector [illegible] in capital [illegible] occur to me this way, and I am not sure the adding to the government [illegible] of a pension [illegible] would mean that government would [illegible] of the available [illegible]. If there was [illegible] suggestion, I would, I think, [illegible] I cannot [illegible] this would [illegible] that there would be a very real [illegible] interest levels. I would think larger [illegible] of [illegible] capital [illegible] would [illegible] their portfolios [illegible]

[illegible]

[illegible]

mouth, but I suspect if you arrange for everybody's pension to be handled through government, the next step may be life insurance, and I think a very great bulk of your investment savings would then flow through government.

HON. MR. BLAKENEY: Well, this is possible. I don't know what per cent of investment savings flow through government now, but I would think it would quite a small percentage unless you regard taxes as savings, and I would think there would be a very large area for moving savings from the private sector to the public sector without there being any particular danger of starving the private sector.

MR. JOHNSTON: I just wanted to add this comment, Mr. Chairman, if I may: In the absence of national transactions accounts it is really terribly difficult to know the sources of funds and the applications of funds in the national economy. I think this is one of the great deficiencies in statistical information available to borrowers and lenders, and therefore to answer this question in the absence of this data is really terribly difficult.

COMMISSIONER LEMAN: I don't have the figures either, but I do know by personal experience that industry does raise money through pension funds more and more as the days go by.

MR. JOHNSTON: Yes, pension funds -- their assets on the last published data from the Bank of Canada -- their assets totalled approximately $3 billion; life insurance $7½ billion, and trust

permit to be applied [illegible], the next step may be [illegible], and I think a very great bulk of your [illegible] would [illegible].

HON. M. [illegible]: This [illegible]. I don't know what [illegible] of these [illegible] flow through [illegible] would quite a [illegible] percentage [illegible] taxes as savings. [illegible] would be a very large [illegible] public [illegible] there [illegible] particular [illegible] of [illegible].

MR. [illegible]: [illegible] difficult [illegible] application [illegible] that this [illegible] additional [illegible] locally [illegible] because [illegible] difficult.

[illegible]: [illegible]

[illegible]

companies, and so on.

COMMISSIONER LEMAN: May I jump now to paragraphs 164 to 166. You explain the valuable part that co-operative financial institutions play in our economy, and having heard from them I think we also are convinced they do play a valuable part. You suggest the federal government should recognize this development as a significant and desirable one and that by appropriate legislation it should encourage credit unions and other co-operative financial institutions. If I refer to paragraph 119 you refer to federal intervention there in loaning to these people, and you also did in paragraph 132 (4). Is that the way which you would like that recognition of encouragement to take, or do you want to go further than that?

HON. MR. BLAKENEY: No, I think really what we had in mind here was loans -- possibly federal loans. You may recall here we also referred to provincial loans to the Canadian Co-operative Credit Society, and then we referred to some programme which was analogous to F.I.L.A. I don't we are particularly recommending any other legislation. I think this might be phrased in a negative way, and that we suggest the Commission should recommend to the federal government that by appropriate legislation it should not discourage credit unions or other co-operative financial institutions. We could phrase it negatively. We didn't have anything particular in mind except to express the view we think they are

COMMISSIONER TRAIN: May I jump now to paragraphs 164 to 165. The [illegible] [illegible] [illegible] point that co-operative financial institutions play in our economy [illegible] [illegible] having heard from them [illegible] think we also are convinced they do play a valuable part. You suggest that federal government should recognize this development as a [illegible] [illegible] [illegible] [illegible] and [illegible] by appropriate legislation it should [illegible] credit unions and other co-operative financial institutions. [illegible] [illegible] [illegible] [illegible] [illegible] refer to [illegible] [illegible] [illegible] [illegible] [illegible] some people [illegible] you [illegible] [illegible] [illegible] paragraph 170 (4). [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] of [illegible] [illegible] [illegible] [illegible] [illegible]

[illegible] [illegible] [illegible]: [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] federal [illegible]. [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] and [illegible] [illegible] [illegible] [illegible] [illegible] was [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] I think that [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] the federal government [illegible] [illegible] [illegible] legislation it should not [illegible] [illegible] [illegible] [illegible] [illegible] co-operative [illegible] [illegible] [illegible] [illegible]

doing a good job and that we would be unhappy if we felt that they were going to be inhibited in their particular development by any legislation.

COMMISSIONER LEMAN: But you would stand by the recommendation made in 119 and 132.

HON. MR. BLAKENEY: 119 is the lending?

COMMISSIONER LEMAN: Yes, and in 119 you suggest the federal government should lend to these organizations, I believe?

HON. MR. BLAKENEY: Yes, I think this is so; I would stand with that one, yes. I would not see why they would lend to anyone under the I.D.B., and not lend to the Co-operative Credit Society. I think that one is O.K.

As for the other one, F.I.L.A., I think I would sort of repeat what I said here: We think, as a government, it would assist some farm borrowers. We are not attempting to speak for the Co-ops, as to whether they would want to participate in this. I simply do not know. I think I would want to leave it there. I do not know what their position is in this.

COMMISSIONER LEMAN: Mr. Blakeney, toward the very end of the main brief there is a reference to securities issue regulation, but before we go into that may I jump briefly to the last section of the technical paper?

HON. MR. BLAKENEY: Yes.

COMMISSIONER LEMAN: It deals with the provincial regulation of various financial institutions. I understand from the context here that the only trust

company incorporated in Saskatchewan is the Co-operative Trust Company Limited which was incorporated by special act of the legislature in 1952. Nevertheless, Saskatchewan has a Trust Companies Act: Would you say the powers of that one existing Trust Company are broader than those foreseen by the Trust Companies Act and, if so, why were they made broader.

HON. MR. BLAKENEY: I am going to have to consult on this. I would gather the answer is that they are wider.

MR.HOLGATE: The powers of the Trust Company apply to equity holdings, which is a main extension of the powers given by the Trust Companies Act generally to trust companies.

COMMISSIONER LEMAN: Could it be perhaps that there being no incorporated trust companies in Saskatchewan that there is no point in revising that Act?

MR. HOLGATE: There doesn't seem to be any point. A special act giving powers to the Co-operative Trust Company is really the only material act -- that is the only trust company incorporated in the province.

COMMISSIONER LEMAN: It is always dangerous, of course, to read just excerpts from an act as we have here, and I don't have the acts available to me. In the insurance company field, in their powers of investment, it seems from the text before us that there is no basket clause included in there for a portion of their funds such as the federal

[illegible] to [illegible]

incorporated by [illegible] [illegible] in 1952. Here [illegible] [illegible] [illegible] Companies Act. [illegible] [illegible] of [illegible] one [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]

[illegible] I [illegible] to have to [illegible] [illegible] I [illegible] [illegible] [illegible] they [illegible]

MR. [illegible] The [illegible] the [illegible] [illegible] apply to [illegible] [illegible] of [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]

[illegible] [illegible] [illegible] [illegible] [illegible] [illegible] Act?

MR. [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] in [illegible] [illegible] [illegible] [illegible] [illegible]

[illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]

companies -- perhaps they have it; I do not know.

HON. MR. BLAKENEY: Is the so-called basket clause -- is that the one which says they may invest a proportion in securities which are not enumerated up above?

COMMISSIONER LEMAN: That is right.

HON. MR. BLAKENEY: And they can buy some common shares which have hot had the appropriate dividend record?

COMMISSIONER LEMAN: Yes.

HON. MR. BLAKENEY: I am familiar with the clause. I frankly cannot tell you whether our Inusrance Companies Act contains in it any clause which permits a small proportion to be invested in non-qualified securities, or whatever you want to call them.

COMMISSIONER LEMAN: These are technical questions, and I think the simplest thing would be for me to read the acts.

HON. MR. BLAKENEY: I think the suggestion is that it does contain this sort of clause. I would think not too many companies are governed by this. Again, I speak here very much subject to correction, but I gather this act only applies to one or two companies, and that the great bulk of them are federal incorporations and they operate under the federal act.

COMMISSIONER LEMAN: Then, there are a few questions of detail here that are not worth going into, so may we refer back to the main brief and to

[illegible] do with [illegible].

HON. MR. [illegible]: Is the so-called basket clause -- is that the one which says [illegible] a proportion in securities which are not enumerated up above?

[illegible]

HON. MR. [illegible]: [illegible] they [illegible] common shares which [illegible]

[illegible]

[illegible]

HON. MR. [illegible]: [illegible] I [illegible] cases [illegible] insurance companies are [illegible] unless [illegible] a small [illegible] non-qualified securities [illegible] call them.

[illegible] questions, and I think [illegible] for me [illegible]

HON. MR. [illegible]: [illegible] I [illegible] Again, I [illegible] a very [illegible] [illegible] and I [illegible] [illegible] companies [illegible]

[illegible]

the question of regulations of securities issues, which is of more direct interest to the Commission, and this is covered by paragraphs 172 and 173 of the main brief, and there seems to be a strong suggestion there that you would be in favour of federal regulations. We have heard from some others who would rather try to bring about uniformity through co-operation, and others feel strongly we should have an S.E.C. type of regulatory body in Canada. We would be very much interested to know what your government's position is on this.

HON. MR. BLAKENEY: I think our position is that uniformity is highly desirable, that it would be desirable if it could be achieved by inter-provincial co-operation. We dispair of this a bit, not only in terms of legislation, but also in terms of the application of the legislation. There is a considerable degree of variance. It will be known to the members of the Commission that while there is a high degree of similarity between the Securities Acts of Quebec, Ontario, Saskatchewan, Alberta, and to a lesser extent, some of the Maritime provinces, the application of the Securities Act varies from province to province. The approach to, let us say, selling into the United States without compliance with American legislation varies a good deal, and that if some perhaps greater degree of uniformity cannot be achieved within a reasonably foreseeable time by the inter-provincial approach, then I think we would not be averse to federal regulations.

COMMISSIONER LEMAN: You mention there may be a difference between what the law is in each province and the way it is applied in each province, perhaps you would like to draw a conclusion as to what is practical, in fact.

HON. MR. BLAKENEY: I am sorry, I didn't quite get that.

COMMISSIONER LEMAN: As to what would be practical knowing, as you know, there is sometimes a big difference between the law and its application.

HON. MR. BLAKENEY: Well, I think a good deal more uniform approach is practical. It is entirely possible for more appropriate securities administrators to come to a somewhat more common approach. I may say that on my immediate left is Mr. W.W. Cameron, The Chairman of Saskatchewan Securities Commission, who will be giving, as I understand it, some additional information to the Commission, and I could either attempt to answer the question or defer it until after the presentation.

COMMISSIONER LEMAN: Oh no, I think Mr. Cameron could easily give it.

HON. MR. BLAKENEY: I am perfectly happy to answer questions on security regulations ---

THE CHAIRMAN: It is not necessary at all. If you want to ask Mr. Cameron to do it that will be perfectly satisfactory to us.

HON. MR. BLAKENEY: I thought we might take up the other things that are in the brief.

COMMISSIONER LEMAN: That about concludes

COMMISSIONER LEMAN: You mention there may be a difference between what the law is in each province and the way it is applied in each province, perhaps you would like to draw a conclusion as to which is practical, in fact.

HON. MR. BLAKENEY: I am sorry, I didn't quite get that.

COMMISSIONER LEMAN: As to what would be practical working, as you know, there is sometimes a big difference between the law and its application.

HON. MR. BLAKENEY: Well, I think a good deal more uniform approach is practical. It is entirely possible for more appropriate securities administrators to come to a somewhat more common approach. I may say [illegible] as Mr. [illegible], the Chairman of [illegible] Securities Commission who will be giving, as I understand it, some [illegible] information to the Commission, and I would [illegible] the question [illegible]

COMMISSIONER [illegible]: [illegible] I think we [illegible]

HON. MR. BLAKENEY: I am prepared [illegible] to answer questions on [illegible] --

THE CHAIRMAN: [illegible] if you want to ask Mr. [illegible] perfectly satisfactory, [illegible].

HON. MR. BLAKENEY: I [illegible] might take up the other things that [illegible].

[illegible]

the questions we had that were strictly related to the brief.

HON. MR. BLAKENEY: I will be here for a little while and if other questions arise with respect to security issues or otherwise I would be happy to cope with them.

THE CHAIRMAN: That concludes the questions, Mr. Blakeney.

We wish to express the appreciation of the members of the Commission to you for being here today representing the Government of Saskatchewan and the exceedingly effective way in which you have dealt with a great variety of questions from men with a variety of experience. I hope that the day has not been unduly onerous.

HON. MR. BLAKENEY: Oh no, I have enjoyed it very much.

THE CHAIRMAN: We are very much impressed with your brief and with the whole manner of presentation. We are very much indebted to you.

HON. MR. BLAKENEY: Well, I will just sort of retire, Mr. Chairman.

THE CHAIRMAN: Yes. Mr. Cameron, of the Securities Commission.

MR. CAMERON: Thank you, Mr. Chairman and gentlemen. May I commence my remarks by expressing my appreciation for being invited to appear before this Royal Commission on Banking and Finance. I fully regret that my preparation has been limited to a single day as I only learned on Wednesday night of

the questions we had that were similarly related to the order.

HON. MR. GARSON: I will be back for a little while and if other questions arise with respect to sections [illegible] I would be happy to come with them.

THE CHAIRMAN: That concludes the questions.

[illegible]

the members of the Commission [illegible] today representing the Government of [illegible] and the exceedingly efficient [illegible] have dealt with a great variety of [illegible] with a variety of [illegible] has not been [illegible]

HON. MR. GARSON: [illegible] I [illegible]

[illegible]

[illegible]

[illegible]

[illegible]

the Legislative Committee.

THE CHAIRMAN: Thank you, Mr. [illegible]

this week that you might wish to hear from the Saskatchewan Securities Commission.

I telephoned Mr. Hampson upon that occasion and he was kind enough to indicate to me some of the matters upon which he felt I could usefully touch. I managed to assemble a somewhat rough written presentation in the one day which I had. Unfortunately, Mr. Chairman, we were unable to get it prepared in a number of copies but I have the original which the Securities Commission Registrar will give to Mr. Hampson.

We were able to supply a copy to the Court Reporter and I would be very happy, sir, to supply the Commission with a further number of copies. We simply were typing until one o'clock this morning and could not complete our preparation in the time which was available:

"The first topic which I propose to consider, gentlemen, is the need for a federal Securities Commission in substitution for our ten provincial Commissions. The provincial Treasurer has answered certain questions on that subject. I am here speaking now as the Securities Commission Chairman -- nothing more. The first point upon this topic to which I should like to refer is the uncertainty in securities regulation in Canada which is created by our having ten provincial securities acts combined with fifteen companies acts,

this week, but you might wish to hear from the [illegible]

I understand that Mr. Hampton spoke at that occasion and he was kind enough to indicate to me some of the [illegible] upon which he felt I could usefully touch. I managed to assemble a somewhat rough written presentation in the time which I had. Unfortunately, Mr. Chairman, we were unable to get it prepared in a number of copies but I have the original which the Secretary of the Committee or Reporter will give to Mr. Hampton.

We were unable to supply a copy to the Court Reporter and I would be happy, sir, to supply the Commission with a further number of copies. We simply ran out of time this morning and could not complete our presentation in the time which was available.

The first topic which I propose to consider, gentlemen, in [illegible] [illegible] federal [illegible] [illegible] substitution for [illegible] provincial [illegible] [illegible] answered [illegible] specific questions on that subject. I am here speaking only on the [illegible]

[illegible]

first [illegible] which I should like to refer [illegible] in [illegible] letter

investment-contracts acts and companies information acts. Each act regulates securities, in varying degrees. Each of these many acts is administered by an independent administrator.

In November of 1951 an essay by myself, in the form of a book review, was published in the Harvard Law Review, Volume 75, Number 1. I would respectfully ask your permission to file a copy of this essay as a part of my presentation today and would ask that it be deemed to have been read into the record at this point. With your permission, Mr. Chairman, I would ask that the entire text of this essay in the Harvard Law Review be taken in at this point in the record as read.

' Securities Regulation in Canada, by J. Peter Williamson, Toronto: University of Toronto Press.

The common well of everie realme is to have a good lawe, so that the subjects of the realme maie be justified by the same, and the more plaine and open that the lawe is, and the more knowledge and understanding that the subject hath of the lawe, the better it is for the common well of the realme; and the more uncertaine that the lawe is in any realme, the lesse and the worse it is for the common well of the realme. But if the subjects of any realme shall be compelled to leave the lawe of the realme, and to be ordered by the discretion of one man, what thinge may be more unknowen or more

investment [illegible] acts and [illegible]

information [illegible]. Each act [illegible] securities,

in varying degrees. Each of these [illegible] is

administered by an independent administrator.

In November of 19[illegible] an essay by my [illegible]

in the form of a [illegible] review [illegible] published in the

[illegible] Law Review, Volume [illegible], Number 1. I would

respectfully ask your permission to file a copy

of this essay as a part of my presentation [illegible] time.

[illegible] would ask that it be deemed to have been read

into the record at this point. With your

permission, Mr. Chairman, I would ask that the

entire text of that essay [illegible] the Reporter [illegible]

Review be taken in at this [illegible]

[illegible].

[illegible]

[illegible] W. [illegible], [illegible] of

[illegible]

[illegible]

[illegible]

[illegible] would be justified by the [illegible], and [illegible] place

[illegible]

[illegible] for the [illegible] of the [illegible]

[illegible] that [illegible] is in any

[illegible], [illegible] and the [illegible] the

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...

And he (the chancellor) regardinge no lawe, but trustinge to his owne wit and wisdom, giveth judgment as it pleaseth himselfe, and thinketh, that his judgment beinge in soche authoritie is farre better and more reasonable than judgments that be given by the king's justices according to the common lawe of the realme .... Even so it fareth by my lord chancelour that is not learned in the lawes of the realme ...

Serjaunte and Student.

(Reprinted from a sixteenth century manuscript in 1 Hargrave, A Collection of Tracts Relative to the Law of England 325-26 (1787).

The prime measure of securities regulation in Canada during the last decade has been neither "a good law, so that the subjects of the realme (and of its principal postwar financier, the United States) maie be justified by the same," nor a "plaine and open" law, of which one can have reasonably certain knowledge and understanding. Rather, Canadians have been "compelled to leave the lawe of the realme, and to be ordered by the discretion of one man," namely, the independent securities administrators in each province who apply their "owne wit and wisdom" to ten far-from-uniform provincial securities acts and, all too frequently, give "judgment as it pleaseth" them. The "unknowen" and "uncertaine" thing which has resulted therefrom has been rendered

even less certain because the ten provincial securities acts are supplemented by some fifteen companies acts, investment-contracts acts, and companies information acts, each administered by an independent administrator.

Our provincial securities statutes and regulations and we who administer them exist for the sole purpose of protecting the investing public from securities frauds and abuses. Since Canada has no federal legislation regulating trading in securities, the "wit and wisdom" which the administrators of the provincial securities acts collectively manifest in enforcing the independent acts constitute the principal safeguard for investors in speculative Canadian securities. Upon our dismal record of protection afforded during the last decade it may fairly be said that,as a group, we have displayed little wit or wisdom. The uncertainty of regulatory legislation has produced some bureaucratic and paternalistic administrators and some, too, who are, like the Lord Chancellor in sixteenth century England, "not learned in the lawes of the realme". The multifarious securities statutes and regulations have been administered with such a lack of efficacy as to sabotage the national economy and grievously injure small American and Canadian investors in Canadian speculative securities.

In this first detailed analysis of securities

regulation in Canada ever to be published, the author has skilfully and impartially delineated the deficiencies in our provincial legislation and demonstrated the impracticability and ineffectiveness of Canadian endeavours to regulate securities through twenty-five acts of ten independent legislatures. Withal, his analysis of our provincial securities regulation constitutes, as Harvard's own Professor Loss has so accurately put it, "a reliable discussion of the Canadian statutes and precedents ..." He might justifiably have added that the book constitutes an excellent manual of practice and procedure for those concerned with securities regulation in Canada.

In his preface Williamson has bluntly stated that:

> It becomes clear after only a brief study of the subject that Canadian securities regulation is unnecessarily complicated, that lack of uniformity is a real stumbling block to a grasp of the law on a national scale, and that there are many deficiencies, both in substantive and procedural law.

While these painful truths are readily apparent to a legal scholar such as the author, other fundamental weaknesses in securities regulation in Canada are apparent only to those of us who regulate securities, and accordingly, are not dealt with by the author. Many of our provinces either cannot or will not support the economic

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burden which an administrative and enforcement team adequate to protect investors in speculative securities issued and distributed in those provinces would impose upon them. This may seem puzzling considering that a single Canadian speculative stock fraud perpetrated in a Canadian province in 1959 and 1960 (almost exclusively against American investors, although callous impartiality as to the nationality of the victims is more usual) extracted enough money from the victims to finance such a team for more than a century. In addition, the problem of finding enough qualified personnel for ten such teams cannot easily be resolved under our provincial regulatory system. Even more significant, perhaps, than the visible differences in our provincial statutes and regulations, to which the author has devoted much attention,are the invisible differences in administrative policies and philosophies of the individuals charged with administering the ten acts. For example, some among us adhere to the view that the startling discretions vested in the administrators by the provincial acts are legal discretions to be exercised with caution and conservatism, while others demonstrably prefer to trust to our own wit and widsom and to give judgment as it pleases us. Moreover, some of the provincial legislatures encourage their administrators to give judgment as it pleases them. A splendid

illustration of Canadian discretions is to be found in the identical statutes of some provinces which provide for the filing of prospectuses with the securities commissions. Until 1960 these identical statutes provided each commission with a discretion to accept for filing "any prospectus, financial statement or report ..." unless certain statutory conditions were not met, in which case acceptance was prohibited. Some administrators avoid exercising the general discretion, except in very rare instances, by reason that it is such "uncertaine lawe." By contrast, the legislation of one of this group of provinces was amended in 1960 so that the discretion reposed in its administrator is now an "absolute discretion." Moreover, in that province there is no right of appeal to the Queen's justices. As the author has pointed out, in only three provinces is there a right of appeal from rulings by the administrators restricting rights in respect of trading in securities, and in one of these provinces the appeal is restricted to questions of law alone. In only one province is there a statutory requirement that the reasons for such rulings be delivered in writing and be open to public inspection. An interesting illustration of the policy differences among our provincial administrators lies in the fact that in 1959 one provincial securities commission concluded a formal agreement with the Securities

and Exchange Commission of the United States for cooperation in protecting the American investing public, while other administrators have expressly stated that they recognize a higher duty to protect Canadian rather than to protect American investors.

The author discussed the annual conferences of the Canadian provincial administrators and quite correctly states that these conferences have "made possible some exchanges of views on policy ..." Unfortunately, while illuminating they are seldom productive of agreement on policy or of solutions to the problems. The author also makes reference to mutual assistance among the provincial administrators and expresses the opinion that "in the absence of any federal securities law this co-operation is especially important and on the whole it seems to have worked fairly well ..." It is submitted that he has correctly assessed the importance of such cooperation but that it has worked badly.

Recognizing the weaknesses of Canadian securities regulation, it is of interest to examine some of the particular perils which confront an investor in speculative securities. The legislation of several Canadian provinces prohibits acceptance of a prospectus for filing where "an unconscionable consideration has been paid ... for promotional purposes ..." However, in one of our provinces authority to fix the

and Exchange Commission of the United States for cooperation in [illegible] the American [illegible]

have [illegible] stated [illegible] quite a [illegible] duty to protect [illegible] rather than to protect [illegible] investor.

The author [illegible] of the Canadian [illegible] quite correctly states that [illegible] could [illegible] "make possible some [illegible] policy. ..." Unfortunately, [illegible] they are seldom [illegible] or of solution [illegible]. The author also [illegible] preference [illegible] the [illegible] opinion that "in the [illegible] [illegible] [illegible]

[illegible] the [illegible] of the [illegible] [illegible] [illegible] [illegible] [illegible] where [illegible]

markup in price, when a broker-dealer has purchased speculative stock from a company's treasury, has been delegated to a self-governing association of dealers in speculative securities. This association has decreed that when one of its members buys and pays in full for an entire issue of shares to be offered to the public (or for his portion of an issue, when more than one dealer handles the primary distribution), he may sell the stock at "any price which it will command." The absence of control does not, however, result in price being determined by the traditional law of supply and demand. The dealer creates the only public demand for stock in a new promotional company by advertising and by high pressure solicitations. Often he buys shares thrown back upon his controlled "market" until he is forced to purchase too much stock to maintain the market at the profit level which he requires. Thereupon he "pulls the plug" by withdrawing his supporting bid, and the market falls. The drop will be severe when the dealer has set a distribution price far above the cost of the stock to himself and has not allowed enough of the public's money to reach the company's treasury to finance adequately the corporate venture. In one recent promotion from this province, the dealer purchased the allegedly speculative stock from the treasury of the company at ten cents per share and distributed it, largely

to Americans, at eighty-five cents per share; a markup of seven hundred and fifty per cent although in this province the maximum commission is twenty-five per cent.

In recent years exploration companies have fallen from public favor and small established industrial companies, listed or readily capable of obtaining listing upon our stock exchanges, have become preferred targets for our promoters. The modus operandi is to increase the share capital, distribute the new stock to the investing public at whatever price the "traffic will bear," and then siphon off the money by making purchases of realty and other property of excessive prices. It is scarcely necessary to point out that provinces with ineffective enforcement teams can do little or nothing to cope with such promotions.

Investors appear to entertain a respect for our Canadian stock exchanges which, insofar as their postwar record of primary distributions of speculative securities is concerned, seems scarcely deserved. Some of the worst promotions of the postwar era have been effected through the facilities of larger Canadian stock exchanges. Exchanges in some provinces may list an issue without a prospectus having been filed with the commission. These allegedly self-disciplining bodies launch noisy periodic reformation programs, aimed at their own members and at other groups

of Canadian brokerage houses, but there is little evidentiary basis for concluding that the risks of speculative securities distributed through them have been reduced to a supportable level. As Williamson has detected "Canadian stock exchanges and associations are much more free of government control than are their American counterparts ... No standards of behaviour are spelled out ..." The evidence obtained in various postwar investigations of our self-governing exchanges does not indicate that their freedom from government control is merited. A majority of Canadian stock exchange houses are managed and directed by responsible and honest persons, but unfortunately they appear unable to control the outrageous promotions effected by the few through the facilities of their exchanges.

Canada has a desperate need for "a good lawe," "plaine and open," subject to the judgments of the Queen's justices. That good law can only be a federal securities act, regionally administered. Concurrently with the enactment of such a law, provincial securities legislation must be repealed. While there is a constitutional problem (considered by Williamson in chapter VII) attaching the enactment of federal regulatory legislation, it cannot be disputed that a sovereign state can legislate that which its eighteen million citizens will. When Canada's need for federal securities regulation is recognized

and understood by our people, their will to have it and to repeal our present hodge-podge of statutes and regulations will resolve the constitutional problem by way of constitutional amendment, should the Supreme Court of Canada hold that such is necessary. For the development of our country we Canadians need American speculative capital. And investment in the development of this conservative, non-revolutionary democracy is potentially, perhaps, the most promising speculative investment available. It will become so in actuality only when Canada enacts a single federal securities act. In the interim, and except where a particular province has succeeded in strictly enforcing its securities law, Americans and Canadians investing in Canadian speculative securities accept unreasonable, excessive, and unnecessary financial hazards.'

In my Harvard Law Review essay I stated that:

> "The multifarious securities statutes and regulations have been administered with such a lack of efficacy as to sabotage the national economy and grievously injure small American and Canadian investors in Canadian speculative securities."

As an example of lack of efficacy, may I direct your attention to the report of the acting administrator under the Security Frauds Prevention

Act of New Brunswick upon his investigation into the operations and activities of Canam Investments Limited and other exploration companies and into the operations and activities of Kenneth H. Greggory and other persons and companies in the securities industry. The report was issued upon November 30th, 1960. And that, perhaps, sirs, offers an excellent illustration of some of the practical difficulties of having provincial regulation of securities. The acting administrator offered the following commentary upon the efficacy of the Securities Administration and enforcement in New Brunswick in the period prior to 1960. There are three quotations I would like to read, if I may. They are rather short:

"The evidence would suggest that the authorities in this Province had not, for some considerable period prior to July, 1960, maintained the respect and confidence of other jurisdictions by their efforts, or lack of effort, in connection with the operations under investigation. It would appear that, when early efforts to assist were not availed of and complaints and warnings had gone unheeded, some authorities in other jurisdictions concerned had, as one enforcement officer has put it, "just about washed their hands of New Brunswick". (see page 49 of the published report).

-- rather an interesting commentary on the practicality

of securities commissions that some jurisdictions had just about washed their hands of the Securities Commission in New Brunswick.

"From these frank statements, made under 'confidential' cover, and from all other matters in evidence one can only deduce that the former government of the province was perfectly happy to permit wide-scale fraudulent operations to continue, in fact to the point of being encouraged, as long as some political benefit was derived from a 'show' of industrial expansion and activity, however negligible the extent." (see page 50).

It is impossible to come to any other conclusion than that the former administrator was subjected to interference both by those charged with the responsibilities of government of the province and by the members of the former Board of Public Utilities." (see page 50)

May I also offer to you, on the subject of the efficacy of securities regulations in Canada a quotation from the address to the 1961 Conference of Canadian Securities Administrators by the Attorney General for Saskatchewan, the Honourable Robert A. Walker, Q.C.:

" I am convinced that there could be a more effective and efficient supervision and enforcement if Canada was not fragmented

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into ten or more isolated jurisdictions. I am sorry to think of the mischief that may be wrought in other provinces by the stockateers that got into hot water water here and then moved elsewhere. In fairness I think I might also observe that most of our trouble-makers were not natives of this province.

But even more significant is the evidence of inter-provincial inspiration and guidance which turns up in most cases of stockateering in this province. Indeed there is real evidence that the stock fraud racket has international ramifications. Often we find this to be true even with the little 'corner bucket-shop'. And there is ample evidence in newspaper reports that the international stock-fraud artist is penetrating other provinces.

It would be surprising if the 'big time' racketeers did not invade this field. When one sees what little merit and what little effort needs to be expended to bilk the public out of a million dollars, it would be surprising if the big time international gangsters did not enter the field. Even narcotics, prostitution and liquor in the prohibition era could not have been more profitable."

May I have leave, Mr. Chairman, to file a copy

of the Attorney General's complete address as part of my presentation today and may I respectfully ask that it be deemed to have been read into the record at this point.

'Speech by the Hon. H.A. Walker, Q.C., Attorney General of Saskatchewan, on the occasion of the 1961 Conference of Canadian Securities Administrators, October 26, 1961

Ladies and Gentlemen:

In a free enterprise economy there must be some machinery for accumulating fresh capital for industrial expansion. And for the first time in history a very substantial proportion of our people have savings to invest. Large amounts of capital can now be raised by a multitude of small subscriptions. With the industrial expansion of the past 20 years, the business of providing capital monies has grown to be a major industry itself.

The doctrine of caveat emptor is a harsh one for the buyer of ordinary goods. In the purchase of goods, one of the principal hazards to the buyer is that the nature or quality of the goods may not live up to the representations made on their behalf. But even the moderately intelligent purchaser of stocks finds it much more hazardous to purchase stocks than to purchase tangible property.

Before purchasing a mining stock a prospective purchaser might retain a consulting engineer to get a personal report on the merits of the ore

of the Attorney General's [illegible] address as part of my [illegible] today and may I respectfully ask that it be [illegible] to have been read into the record at this point.

(Speech by the [illegible], Q.C., Attorney General of [illegible], on [illegible] of [illegible] Securities [illegible].)

Ladies and Gentlemen.

In a free economy there must be some machinery for accumulating [illegible] capital for industrial expansion. And for [illegible] time in history a [illegible] of our people have savings to invest. Large amounts of capital can now be raised by a multitude of small investors. With the industrial expansion of the past 20 years the business of providing [illegible] has grown to be a major industry itself.

The [illegible] of [illegible] for the [illegible] of [illegible] purchase of [illegible], one of the principal [illegible] to the buyer is that the [illegible] of the goods may not [illegible] representations made on their behalf [illegible] intelligent purchaser of [illegible] have [illegible] property.

Before [illegible] prospect-
[illegible]

body. He might have a financial consultant examine the proposed financial structure. He might have private enquiries made as to the reputation and character of the promoters and chief participants. And even if he has done all these things, there is still the ever present specter of failure resulting from business misjudgment, changed marketing or price conditions, and a whole host of possibilities for failure having no relation whatever to the honesty or integrity of the promoters, or the intrinsic worth of the properties.

Every realistic person knows that it is not practical, particularly for small investors to so exhaustively analyse a prospective investment.

In order to give some protection to the public from fraudulent promotional activities and other securities trading abuses, most jurisdictions have enacted securities legislation. In 1954, Saskatchewan reviewed its securities legislation and adopted a new Securities Act. Our present Act is virtually identical with that of several of the other provinces.

This Act makes provision for a Securities Commission to act as a watchdog over promotions and intended promotions of speculative securities. It does this in the first instance by requiring brokers and salesmen of speculative securities to be licensed. In this way it seeks to restrict such activities to persons with a good record.

ody. He ough[illegible] [illegible] a financial consultant examine the [illegible] structure. He might have [illegible] made as to the reputation and [illegible] of the promoters and [illegible]. And [illegible] if he has done all these things, [illegible] is still the ever present specter of [illegible] business misjudgment, changed [illegible] or price conditions and a whole host of [illegible] having no relation [illegible] or integrity of the promoters [illegible] of the [illegible].

Every [illegible] person knows that it is not [illegible] investment.

In order to give some protection to the public [illegible] securities [illegible] [illegible] and [illegible] [illegible] this [illegible] act is [illegible] of [illegible].

The [illegible] and [illegible] Commission [illegible] provisions and [illegible] securities. [illegible] laws [illegible] by requiring

Secondly, the relevant details of each proposed promotion must be set out in a prospectus filed with the Commission. This prospectus must be delivered to the purchaser of stock in conjunction with the purchase. Thus The Securities Act gives the citizen protection which he would be able to provide for himself only if he could afford to make the most exhaustive and expensive inquiries. In addition, The Securities Act can provide some forms of protection which an individual purchaser could not provide for himself. For instance, it can enforce a measure of continuing control over the promoter, for the continuing protection of the investor even after the investor has parted with his cash. The administrators can hold promoters' stock in escrow to ensure that the promoters cannot sell their own personally owned stock in competition with the treasury stock. And they can investigate the activities of a company involved in a fraudulent or criminal promotional activity. When it is considered advisable, the assets of the company can be frozen in connection with such an investigation.

There are wide and sweeping powers. And when it became apparent in 1958 that all or most of these powers were going to have to be used, the government and the members of the Securities Commission were anxious lest such powers might seem unduly arbitrary when put into operation.

So in 1959 we introduced some new and unique provisions into our Act. At the 1959 session of our legislature we provided that our Commission must give "written reasons for directions, decisions, orders and rulings". The Commission was thus compelled to act circumspectly in any action which might adversely affect persons engaged in the securities promotion industry. Indeed with the introduction of that provision, the government felt some apprehension whether the Commission could effectively do its job. We felt, however, that those engaged in the securities business were entitled to enjoy a high degree of certainty in the law and a reasonable predictability in the policy of the Securities Commission.

To remove all doubt that the "rule of law" was to apply in this area, we also provided that "every direction, decision, order or ruling of the commission" should be appealable to the Saskatchewan Court of Appeal.

I have already said that in 1958 it looked like a "crackdown" on illicit stock promotion was in order. And it should not be assumed, because of the legislative changes which we made, that we underestimated the skill and cunning of the unscrupulous "fast buck artists" in the speculative securities business.

By 1958 there was a group of upward of a dozen "broker-dealers" operating under the

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provisions [illegible] our Act. At the [illegible] question of

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Indeed, with the introduction of this provision,

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tutelage of one person. It has since come to light as a result of a seizure of documents, that there was a definite connection between the Saskatchewan ringleader of this operation and the well-known Toronto lawyer who was recently indicted for his alleged connection with a gigantic international stock fraud. It is, therefore, pretty clear now that this little band of broker dealers was a part of an international stock frauds operation.

Their modus operandi was to acquire "sucker lists" of American investors, mail them some literature, then telephone them, giving them a high-pressure but plausible story. The magnitude of this operation is scarcely credible to the man-in-the-street. In 1958, there were scores of such "salesmen" operating out of this city. During certain periods, their use of the long distance facilities constituted the great bulk of the long distance business calls going through our Regina exchange.

The mentor of this little clique of broker dealers sat in my office and tried to convince me that this industry rendered a valuable contribution to the provincial economy. This industry, he said, lifted millions of dollars annually from what he called "greedy Americans" and at the same time patronized the Arts and created a demand in Regina for expensive automobiles and fine homes. When informed that the

government was determined to end this abuse of the American public, he then cautioned me that our intended action was probably unconstitutional.

Saskatchewan, late in 1957, decided to be the only province in Canada to demand, as a condition of the licensing of brokers and salesmen, that the licensees trading from Saskatchewan into the United States must obey the laws of that jurisdiction. The industry was given several months notice of this intention, and the new restriction went into effect on May 1, 1959. It will thus be seen that an important new element of protection was introduced into our securities climate. And the fraternity of telephone "stockateers" silently melted away.

Looking back now I realize that the granting of these months of grace was a mistake. We over-estimated the responsibility of these operators. As it turned out, the American public was defrauded hundreds of thousands of dollars during those last months. Indeed it later came to my attention that during the last few months the most unscrupulous tricks were used. For example, I had been quoted in some newspaper as saying that, when Saskatchewan's policy was fully implemented, American investors would have the assurance that Saskatchewan securities sold in the United States would be sold in compliance with S.E.C. regulations. By sending a copy of the press report, to their

government was determined to end this abuse of the American public, he then cautioned me that our intended action was probably unconstitutional.

Saskatchewan, [illegible], decided to be the only province in Canada to demand, as a condition of the licensing of brokers and salesmen, that the increased trading from Saskatchewan into the United States must obey the laws of that jurisdiction. The industry was given several months notice of this intention, and the new regulation went into effect on May 1, 1959. It will thus be seen that an important new element of protection was introduced into our securities climate, and the [illegible] of dangerous "boiler-room" activity [illegible].

[illegible] that I had [illegible] the extending of these months of grace was a mistake. We overestimated the [illegible] of these operators. As it turned out, the American public was defrauded of millions of dollars during those last months. Indeed it later came to my attention that during the last few months the most unscrupulous [illegible] were used. For example, I had been quoted in some newspaper as saying that, when Saskatchewan's policy was fully implemented, American investors would have the assurance that

prospective customers and omitting the reference to the date, they gave the misleading impression that the wolves had already had their fangs drawn.

We were then confronted with the outbreak of a new series of stock frauds directed this time against the people of Saskatchewan. In a new succession of fraudulent schemes many millions of dollars were mulcted from the people of this province.

To combat this wave of fraudulent stock promotions during the period 1959 and 1960, our Securities Commission pursued a vigorous policy of control and the Department of the Attorney General vigorously prosecuted known offenders. The Commission cancelled or denied licenses to 84 brokers and salesmen. To get some idea of the relevant size of that figure, I would point out that there are, at this moment about 100 dealers and about 500 salesmen registered in the province. It is significant that of all the persons whose licenses were cancelled or denied, not one was able to launch a successful appeal to the courts.

In the same period charges were laid against 31 persons for violation of The Securities Act with the result that 29 were convicted and warrants are outstanding for two persons. Charges under the Criminal Code were laid against 10 persons resulting in 5 of them being convicted and two others still pending.

[illegible] customers and mulling the reference to the date, they gave the misleading impression that the wolves had already had their fangs [illegible].

We are [illegible] with the outbreak of a new series of stock frauds [illegible] the [illegible] of [illegible] in a new [illegible] of fraudulent schemes [illegible] millions of dollars [illegible] of [illegible] practices.

To [illegible] of fraudulent [illegible] [illegible], the [illegible] and [illegible] Securities [illegible] of [illegible] of the Attorney General [illegible] of brokers and [illegible]. To get [illegible] of the [illegible] that there are [illegible] 100 [illegible] and about [illegible] salesmen [illegible] in the [illegible]. It is [illegible] that of all [illegible] were [illegible] but [illegible] was [illegible] the course.

In the same period [illegible] were [illegible] against 31 [illegible] for violation of the Securities Act [illegible] [illegible] for [illegible] reasons.

One fact becomes clear when one closely analyses the elements in all these fraudulent promotions. Certain individuals always appear to lurk in the twilight fringes surrounding each scheme. While it is no crime to be innocently associated with wrongdoers, it became increasingly manifest that such "innocence" owes much to the difficulty of securing evidence.

Any enforcement program that stops at convicting the salesmen and the "front men" amounts to a mere treatment of symptoms. But the prosecution of the "ringleader" in such cases presents many difficulties, not the least of which is the difficulty of adducing evidence. Most of the persons in a position to give evidence, in such case, must of necessity be violators themselves or they wouldn't have been in a position to see the illegal aspects of the project. But in spite of these obvious difficulties, if enforcement is to be effective, every effort must be made to get at the source of the evil, to reach the author of the illicit promotional schemes, the evil genius who guides and manipulates the various "fronts" who come and go on the speculative securities scene.

To illustrate the problem faced by the Commission on regulating the type of persons permitted to operate in the speculative securities field, let me refer to some documents on the files of the Securities Commission with respect to one

person appearing before the Commission, whom I shall describe as Mr. F. In a routine investigation of the applicant's character, it turned out that he had a record of eight convictions in Canada and the United States, including the offence of theft, shopbreaking, vagrancy, violating of immigration laws, perjury and first degree robbery carrying a sentence of five years to life imprisonment in San Quentin.

In addition the police force of one major city reported that he was known to be active in the criminal underworld, having been involved in gang wars for which he was not prosecuted.

His introduction in Saskatchewan was accompanied by a letter from a "well-known civil rights lawyer from Calgary" which reads as follows:

' Chairman,
Saskatchewan Securities Commission,
Regina, Saskatchewan.

I was quite pleased to receive your communication of the 17th instant.

My relationship with Mr. F. has been on a personal basis. By that I mean that he is married to a daughter of Mr. and Mrs. S. I have been intimate with this family for many years both in Winnipeg and Toronto, and have always had the utmost regard and respect for them.

This respect also extends to the said Mr. F., whom I have known for many years and

consider that he is reputable and reliable and is of excellent character.

I know that he has had considerable experience in mining ventures, and I have no hesitation in urging if I may respectfully suggest it, that he be issued with a license as may be necessary for him to carry on his occupation in the mining business in Saskatchewan.'

An important phase of the work of the Commission is in the scrutiny which it gives to prospectuses. A great deal of the time of the Securities Commission is spent in attempting to ensure that all material facts are disclosed in the prospectus. When one sees in a prospectus words suggesting the project is speculative, the true import of the words can best be gathered by contrasting it with the words used by the salesman when making the sale.

When the public realizes the amount of care the Commission gives to the wording of the prospectus, the prospective purchaser will put out of his mind every representation made in preference to the actual words of the prospectus..

When one reads of the prosecution of a promoter for making a false representation in a prospectus, or when one reads of a promoter who fails to deliver a prospectus to an investor before he makes his investment, he may think it is a relatively minor matter. It should be realized that an entire fraudulent scheme might

consider that one is a [illegible] and reliable article of excellent [illegible].

I know that [illegible] considerable experience in mining ventures, and I have no hesitation in urging, as I may respectfully suggest to, that the [illegible] framed which [illegible] the necessary [illegible] to [illegible] the correction in the mining prospectus [illegible].

An important phase of the work of the commission is the [illegible] which it gives to prospectuses. A [illegible] of the [illegible] of the Securities Commission [illegible] requiring to ensure [illegible] full disclosure in the prospectus. [illegible] is a prospectus [illegible] speculative, the true import of the words can only be gathered by [illegible] the words used by the [illegible] the rule.

When the [illegible] realizes the number of cases [illegible] of the working of the companies, [illegible] will [illegible] one or two [illegible] in reference to the actual work of the prospectus.

[illegible] of the importance of a [illegible] making a [illegible] in its prospectus, [illegible] of a [illegible] to declare a [illegible] before the [illegible].

[illegible]

succeed because of a material misrepresentation in a prospectus. For example if an exaggerated opinion by a consulting engineer is allowed to be published in a prospectus, then a two or three million dollar stock fraud may be facilitated. Or an individual prospective investor may part with his money on the strength of the salesman's representations, when he would never have dreamed of doing so had he seen a prospectus.

Is it a more serious crime against the community to defraud another with an N.S.F. cheque, for $100 or to sell $100 worth of worthless stock by concealment of the prospectus? In the first instance the perpetrator is charged with obtaining money by false pretences and usually goes to jail. In the second instance he is charged with non-compliance with the Securities Act, often regarded as being a comparatively minor matter.

Now let us look briefly at the ability of the Commission to give continuing supervision to a promotional scheme. This is an area where I believe, - judging from letters of complaint I have received, - some misunderstanding exists.

The Securities Commission does not have any right to supervise the economic activity of the new born company in pursuing its objects of incorporation. The company may make good or

bad economic decisions. It may pay too much for raw materials and labour and it may sell its product too cheaply. The Commission will take no interest in such facts. It is the duty of the shareholders to elect a board of directors in whom they have confidence. It is the duty of the directors to manage the company in the best interests of the shareholders.

The Commission concerns itself with the manner of raising the capital funds, and the integrity of the fund after it is assembled. A reasonable portion of the assembled money must go into the physical plant or mine properties. There the interest of the Securities Commission comes to an end.

Most of my listeners will be acquainted with various techniques for syphoning capital money out of a company after it has been successfully promoted, but before it goes into commercial operation. A favorite device is to buy at a very high price, worthless services or property from a confederate who is willing to secretly kick back the money to those who cooked up the conspiracy.

I can give an illustration of two contrasting results achieved by the Saskatchewan Commission in policing the disposal of the capital money after it has been raised.

Readers of newspapers who can take their minds back to 1958 can remember an instance when

the Commission conducted an inquiry into a company known as Columbia Metals Ltd. After it appeared to the Commission that something was wrong with the set-up of this promotion, a seizure order was issued freezing the funds and securities of the company pending further investigation. About 15% of the money solicited was still intact.

As a result of the alert given to the shareholders by the action of the Commission, the shareholders reorganized the company and the balance of the treasury fund was thus conserved.

For the converse situation I would refer to a promotion in which the Commission was helpless to intervene. I refer to Western Diversified Mortgage Company. Early in 1960 it came to my notice that an individual operating under that name was soliciting funds on a promissory note basis for one year and guaranteeing 10% return per annum with "highest grade collateral". The collateral was to consist mainly of second mortgages and lands subject to mortgages and agreements for sale.

Now a person doesn't have to be very smart to understand that a10% guarantee return is impossible, and anyone undertaking to give such a guarantee is trying to play the public for a sucker. When I saw the literature, I took it into my possession and turned it over to the Securities Commission.

Normally, trading in promissory notes for a duration of one year only, is exempt from registration and, accordingly, is not supervised by the Commission. When the Commission completed a superficial examination of the subject, it immediately decided to withdraw the exemption and examine fully into the plan's operations.

The Commission discovered that the plan had been in operation only a few weeks and the promoters were still busy recruiting a staff of salesmen. About $120,000 had been picked up.

The promoters immediately launched an action against the Chairman and members of the Securities Commission seeking an injunction restraining them from making any further investigation into Western Diversified Mortgage Company, until the constitutionality of The Securities Act could be determined by the Court. They were successful in delaying the investigation, while losing in the Court of Queen's Bench, the Court of Appeal and the Supreme Court of Canada and as a result no further enquiry by the Commission was possible during a seventeen month period.

The injunction proceedings did not bind the Department of the Attorney General, however, so we examined the facts carefully to discover whether or not any appropriate prosecution was available.

We noted that, although the documents issued by the firm gave the appearance of a gilt-edge,

blue-chip bond, they were, in law merely the unsecured obligation of one man. We thought that there was an offence committed by his failure to disclose his trade name under The Partnership Act. At least, we felt that a conviction and a small fine would have served as a notice to the public that there was something seriously amiss. However, our prosecution failed, and the individual investors took no action to protect their rights, or to recover the money which they had advanced.

Eventually the question of the constitutionality of The Securities Act was settled in the Supreme Court of Canada and the injunction was dissolved, giving the Commission a free hand to look into the affairs of Western Diversified Mortgage Company. In the meantime, the trustees of the so-called trust fund now acknowledge that the fund is insolvent. There is only enough on hand to reimburse a fraction of the original investors' contribution. And the promoter has long since moved to another jurisdiction where, I am advised, he is foraging upon fresh pastures.

I have attempted to outline some of the actions taken by the Securities Commission and the Department of the Attorney General to protect the people who invest in Saskatchewan enterprises. It will be seen that the activities of the Securities Commission are largely supervisory and preventive. My Department's chief role

[illegible] up [illegible] they were, it, low cately the unsecured of litigation of one man. [illegible] that there was an offence committed by his failure to [illegible] [illegible] [illegible] The [illegible] [illegible]. At least, in fact that conviction and a small fine would have served as a notice to the public that there was something [illegible]

and the individual interest [illegible] [illegible] to protect their rights [illegible] to recover the money which they had [illegible].

Eventually the question of the constitutionality of The Securities Act was settled in the Supreme Court of Canada and the situation was [illegible] [illegible] the [illegible] [illegible] to [illegible] the affairs of [illegible] [illegible] Mortgage Company. To [illegible] [illegible], [illegible] of the so-called [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] the original [illegible] [illegible] [illegible] long since [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible].

I [illegible] [illegible] [illegible] [illegible] action taken by the [illegible] [illegible] and the Department of the [illegible] General [illegible] the [illegible] [illegible] [illegible] [illegible] [illegible]

is that of prosecutor, so that those who have already committed violations may be punished.

It is my opinion that the preventive and prosecutory measures undertaken in this province, in relation to the number of people engaged in the speculative securities trade, is the greatest in Canada.

I am convinced that the reason for this is that to date, while we have prosecuted and convicted the ostensible offenders, the "front-men", we have not had the same success at getting beyond them to the "evil genius", the real brains behind securities frauds.

I am convinced that there could be a more effective and efficient supervision and enforcement if Canada was not fragmented into ten or more isolated jurisdictions. I am sorry to think of the mischief that may be wrought in other provinces by the stockateers that got into hot water here and then moved elsewhere. In fairness I think I might also observe that most of our trouble-makers were not natives of this province.

But evenmore significant is the evidence of the interprovincial inspiration and guidance which turns up in most cases of stockateering in this province. Indeed here is real evidence that the stock fraud racket has international ramifications. Often we find this to be true even with the little "corner bucket-shop".

And there is ample evidence in newspaper reports that the international stock-fraud artist is penetrating other provinces.

It would be surprising if the "big time" racketeers did not invade this field. When one sees what little merit and what little effort needs to be expended to bilk the public out of a million dollars, it would be surprising if the big time international gangsters did not enter the field. Even narcotics, prostitution and liquor in the prohibition era could not have been more profitable.

In this city and in every large city in Canada there are prople who have made multi-million dollar fortunes since 1945 out of their connection with the "stocketeering" racket.

This cancer in our free enterprise system robs innocent investors, - indeed widows and orphans of many millions of dollars each year. But it has an even more serious secondary effect. It destroys the confidence of the investing public in Canadian speculative investments. So long as the major source of funds for economic expansion must come from private sources - and it looks like that will be for some time yet - then the adverse reaction from stock frauds tends to dry up these sources for legitimate speculative investment capital. The "stockateer" thus has his hand in the pocket of every owner, worker and farmer in the country.

Someday, I hope we will have a national agency to protect the speculative investor. But until that day comes, we must use the provincial agencies to the best possible advantage.

Let me make it perfectly clear that I cast no reflection on the ability and integrity of the various provincial administrations. I want to make it clear that in my opinion the essential weakness of the present set-up is its fragmented character.

By working together, by pooling our various skills and resources by freely and frankly exchanging information, we can overcome some of the difficulties and disadvantages. If we can do this, we can stamp our most of the stock frauds rampant in every part of Canada.

When this has been done we can expect a renewed interest in Canadian speculative mining and industrial ventures. Such a restoration of confidence would go far to developing and furthering the prosperity of our country.'

The Securities and Exchange Commission of the United States has taken notice of the fact that in many areas of Canada the local securities administrator lacks the machinery and financial capacity to obtain that measure of full and fair disclosure of the facts which the S.E.C. requires in order to prevent fraud. The S.E.C. has also taken notice of the fact that such an administrator

has little choice but to accept what the promoters tell that Administrator about the venture. Senior officers of the S.E.C. have indicated to me that they have encountered very inadequate disclosure and gross exaggeration in many prospectuses accepted by provincial Securities Commissions. In the face of this evidence of the inefficacy of Canada's securities regulation, the American authorities have been forced to take drastic steps to prevent the small American investor's speculative money from coming to Canada. They have created a restricted list of objectionable Canadian companies, numbering over 250 at the present time. The American Post Office issues postal fraud orders and denies enjoyment of the use of the American mails to many Canadians attempting to raise speculative capital in the United States. They employ a large black stamp reading "FRAUDULENT" in rejecting letters from their citizens to Canada and from our country to their citizens. I might add, gentlemen, that the recent report of the S.E.C. on the American Stock Exchange made some particular and far from kindly references to 104 Canadian issues listed upon that exchange and the description of those issues offered cold comfort to those who feel that we are successfully regulating securities in Canada in my respectful submission. Legal proceedings, in the form of prosecution and injunction action, are also used extensively by the American

authorities to discourage their small investors from investing in Canadian speculative issues.

Investment in speculative securities which is injurious to Americans is obviously equally injurious to small Canadian investors. However, the American public has, in the S.E.C., an effective protector. I would put this question before you gentlemen whether the citizens in many of our Canadian provinces have little or no effective protection. Lack of public confidence and of S.E.C. confidence in speculative Canadian securities inevitably sabotages our national economy, since needed money is denied to good companies as well as to unscrupulous operators.

It is ironic, I suggest, that at a time when so many Canadians complain that American big business is buying control of the Canadian economy our ineffective securities regulation is, I submit, directly responsible for driving away the potential investment of the small American investor, who never could or would attempt to assert control of any Canadian company by reason of his modest interest in it.

Professor Peter Williamson, of the Harvard and Dartmouth Schools of Business, a Canadian and a noted legal scholar in the field of Canadian securities regulation, has summarized the weaknesses in Canadian securities regulation in a single sentence of his recently published "Securities Regulation in Canada":

"It becomes clear after only a brief study of the subject that Canadian securities regulation is unnecessarily complicated, that

lack of uniformity is a real stumbling block to a grasp of the law on a national scale, and that there are many deficiencies, both in substantive and procedural law."

It is my respectful submission, gentlemen, that the legislatures, the judiciary and the general public of many Canadian provinces fail to recognize the economic importance of malefaction in the securities industry. Such legislatures and taxpayers over-emphasize economy in securities administrative tribunals, thereby denying to the provincial administrative teams the numbers and the quality of skilled personnel requisite to administer and enforce securities legislation effectively. The monetary penalties provided in our provincial acts are so modest as to constitute a "licence fee" for illegal activities which is negligible when weighed against even such minor items of overhead as stenographic costs and postage. The maximum permissible terms of imprisonment are too small to serve as serious deterrants, I submit, but it is well nigh impossible to offer this Royal Commission any evidence in support of this submission, since our judiciary in the various Canadian provinces do not appear to consider branches of the Securities Acts as deserving of imprisonment. On the contrary, prison terms are seldom imposed and the scale of fines is usually more appropriate to breaches of provincial statutes which do not profit the offender to the extent of thousands and even hundreds of thousands of dollars. Too, the judiciary in Canada are quick

[illegible] uniformity is [illegible] [illegible] birth [illegible] of the law in a uniform [illegible], and [illegible] very different [illegible] [illegible] law."

It is my [illegible] that the legislature, the [illegible] of the general public of many Canadian [illegible] the [illegible] important [illegible] [illegible] which is [illegible] in [illegible] [illegible] [illegible] [illegible] of [illegible]

to restrain securities administrators from conducting securities investigations. The issuance of interim injunctions without the Securities Commission concerned even being given a chance to be heard is not unusual. During the long months while the restraining proceedings are before the Courts, the securities operator consolidates his position and then leaves the province with all of the money raised to the date of intervention of the Courts. Under a federal Securities Act, I suggest, both the money and the body of the malefactor would continue to be subject to the rule of securities law. In my personal experience as a securities administrator one operator stopped a Secûrities Commission for sixteen months, through recourse to the civil Courts. During that sixteen months he launched a similar venture in another Canadian province, assisted with money raised in the first jurisdiction. By the time he lost all of his civil proceedings in the Supreme Court of Canada (he took the case all of the way) the promoter and most of the money had vanished. A nice touch was applied in his employment of the investors' money to pay for all of his civil proceedings to restrain the Securities Commission which the investing public was paying to protect them.

The bigger stock operators, gentlemen, are very strongly financed and can command unlimited legal and accounting assistance and remedies, both in the planning stage of their operation and when under investigation or prosecution. Small Securities

Commissions lack the manpower and the money to cope with such operators, with the result that the most important offenders are sometimes above the rule of law. An amusing illustration of the contempt, open contempt I submit, in which some promoters hold provincial securities acts was a case tried in Toronto in 1962. As reported in the Toronto Daily Star, the promoter in question was fined the maximum of $2,000 for failing to list his name as promoter on a prospectus. The promoter was personally in Florida, during his trial and conviction, and his counsel, so informing the trial Magistrate, is reported to have expressed his pleasure at not having to call his client back to Toronto on "the worst day of the year". One wonders whether the $2,000 fine was as painful to that promoter as a $10 rush hour parking ticket is to the ordinary Toronto resident.

Turning to another point, gentlemen, in support of my proposition that we have a very great need for a federal securities commission in substitution for provincial securities commissions I submit that ten securities commissions must inevitably differ in their administrative policies, philosophies and procedures, quite apart from the difference in the ten securities acts and ten sets of regulations. Obtaining financing across Canada is inevitably rendered extremely complicated by these differences. For example, the Province of Saskatchewan may not lawfully accept for filing a prospectus drawn in accordance with the legislation of British Columbia.

A British Columbia Solicitor recently asked this commission to do so. However, when we requested a "key" to the British Columbia prospectus, in terms of the corresponding Saskatchewan legislation, he advised us that some of our requirements were not met at all by the British Columbia prospectus and enclosed a complete Saskatchewan prospectus instead of the expected "key".-- a very costly and inconvenient procedure for him, I should think. The loss of time and extra legal cost of filing in ten different provinces is highly prejudicial to successful financing of Canadian corporate ventures. Similarly, ten tax supported regulatory teams must perform the same protective functions and scrutinies which one Federal commission could perform. Worse, in the discretionary aspects of administration corporations seeking to file prospectuses are inevitably confronted with the fact that individual administrators and individual provinces have differing economic philosophies and concepts. For example, the administrator of one Canadian province is exercising "absolute discretion" -- that is the language in his prospectus statute -- (imposed in him by his legislature in 1960) when he considers a prospectus. The administrator of an adjoining province must deliver written public reasons for his every ruling restricting the right to trade in securities, inclusive of refusing any prospectus, although the legislation of these two provinces is essentially identical to that of the Ontario legislation, and was adopted from Ontario. The

commission to do so. However, when we suggested a "key" to the British Columbia proposals, in terms of the corresponding benefit to [illegible] legislation, he advised us that some of our requirements were not met at all by the British Columbia proposals and mentioned [illegible] Saskatchewan provisions [illegible] of the [illegible] "key" -- a very costly [illegible] to [illegible] provincial Columbia, I should think. The [illegible] of the [illegible] extra legal cost of filing [illegible] a [illegible] provinces [illegible] highly [illegible]

[illegible]

supported [illegible] very [illegible] that [illegible] [illegible] [illegible] commission could [illegible]. [illegible] [illegible] aspects [illegible] [illegible] [illegible] file prospectus [illegible] [illegible] fact that [illegible] [illegible] provinces have [illegible] concessions. For example, [illegible] administration [illegible] [illegible] province is [illegible] [illegible] - that is the [illegible] prospectus [illegible] (imposed [illegible] his legislature, [illegible] considers a [illegible]. The [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] although the [illegible] [illegible] provinces [illegible]

The Ontario legislation, however, neither grants absolute discretion to its administrator nore requires written reasons for refusal of a prospectus, with the result that in three provinces with highly similar legislation you get that measure of variation: Absolute discretion, the duty to deliver written reasons for refusal, and a general discretion without a duty to deliver written reasons. Quite a problem, I suggest, it presents for equitable and even administration of justice.

I submit to you, sirs, that in Canada few companies other than established, successful, dividend paying corporations can please ten "masters" and successfully file their prospectuses in all Canadian provinces. The differences in rules and philosophies render it hopeless.

Professor Williamson (see page 46 of his "Securities Regulation in Canada") makes reference to mutual assistance among the provincial securities administrators in Canada and expresses the opinion that:

> "In the absence of any federal securities law this co-operation is especially important and on the whole it seems to have worked fairly well ..."

With respect, gentlemen, I must disagree with the learned Professor. A securities commission which is conducting an investigation has no legal power to examine books and records located in any other province; it has no legal power to require any person in another

absolute discretion to the administrator only requires written reasons for refusal of a [illegible] with the result that in these [illegible] [illegible] legislation [illegible] absolute discretion [illegible] the duty to deliver up the reasons for refusal, and [illegible] a duty to deliver written reasons. [illegible] [illegible] presumes for equitable and [illegible] administration of justice.

I submit to you, sir, that [illegible] companies other than established, [illegible] or dividend paying corporations can [illegible] "[illegible]" and successfully file their prospectuses [illegible] [illegible] [illegible] in [illegible].

Professor [illegible], see page [illegible] of his "Securities Regulation [illegible]" to [illegible] administration [illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible] has [illegible]

province to submit to examination under oath; it has no legal power to subpoena the attendance of any witness needed in its Securities Act prosecutions (unless proceeding under the Criminal Code); it cannot require production of books and records or of any other exhibits needed for such trials. I submit that personal co-operation among administrators cannot serve as an effective substitute for such legal disabilities. Experience has shown that a Securities Commission is, in fact, almost completely impotent beyond its provincial boundary. Theoretically one Securities Commission may call upon another Commission for assistance. In practice, however, when an investigation has progressed beyond its early stages the personnel of an assisting commission cannot be briefed in sufficient detail to enable them to stand in the shoes of the Commission which launched the investigation. Too, the assisting Commission frequently lacks the manpower and the experience requisite to lend effective assistance. It is hardly necessary to comment upon the effectiveness of co-operation on a personal footing in a situation where the government of the assisting province is "perfectly happy to permit wide-scale fraudulent operations to continue, in fact to the point of being encouraged, as long as some political benefit is derived from a 'show' of industrial expansion and activity..." In a federal Securities Commission there would not be the problem of jurisdictional barriers. Further, the problem of human fallibility would not be multiplied tenfold.

provinces to submit to examination under oath; it has no legal power to subpoena the attendance of any witness needed for the Combines Act prosecutions (unless proceeding under the Criminal Code); it cannot compel production of books and records or of any other exhibits needed for such trials. I submit that provincial co-operation among administrations cannot serve as an effective substitute for such legal facilities. Experience has shown that a Combines Commission is, in fact, almost completely impotent beyond the provincial boundary. Theoretically [illegible] Commission may call upon another Commission for assistance. In practice, however, where a [illegible] has progressed beyond its early stages, the [illegible] of an assisting Commission cannot [illegible] in sufficient detail to enable them to stand in the shoes of the Commission which launched the investigation. Then, the assisting Commission [illegible] lacks the [illegible] and the expenditure required to lend effective assistance. It is hardly necessary to comment upon the effectiveness of co-operation of a provincial [illegible] in a matter on which [illegible] of the assisting province is materially likely to gain [illegible] immediate [illegible] in fact to the point of actual embarrassment, as long as some political benefit is derived from a "sense of [illegible] jurisdiction and activity." In a federal

Modern communications, I submit, have placed the securities malefactor in a most advantageous position, under our provincial system of securities regulation, in that he can readily locate the head office in one province, the corporate venture in another and the securities selling operations in one or more other provinces. The promoter thus renders his position almost unassailable, from the commencement of his operation. In short, in 1962 our Canadian promoters are operating upon a national and even international basis, while the policing forces, our ten Securities Commissions, are limited to the narrow confines of their respective provinces.

A particular problem in the realm of financing the general development of Canada to which I should like to direct your attention is in the realm of promotional profits. Perhaps I should have brought this out, gentlemen: You have probably perceived that at all stages I am dealing in the realm of the speculative securities industry; in that realm and that realm alone the securities commissions have their problems. In my view, we don't need to exist were we only confronted with the Investment Dealers Association. I have never conducted an investigation of any investment dealer in 16 years. Were we confronted only with that type of dealer there would be no Canadian Securities Commissions. I am exclusively concerned with the speculative field.

Our various Canadian legislatures have fixed the maximum rate of commission, on the sale of

under our provincial system of securities regulation, in that he can readily locate the head office in one province, the corporate vendor in another and the securities selling operations in one or more other provinces. The promoter thus [illegible] one thing [illegible] direct consequences, and the [illegible] of his operation. In short, in 1967 our Canadian promoters are operating upon a uniform Canadian and international basis, while the [illegible] has been completely [illegible] to [illegible] different [illegible] provincial jurisdictions.

A particular problem in the area of financing the general development of Canada to which I should like to direct your attention is in the field of mining promotion. Perhaps I should avoid [illegible], because the [illegible] I am concerned with [illegible] I am dealing in the realm of [illegible] mining property. In other cases and [illegible] have [illegible]. In any case, we don't need to [illegible] seem to be [illegible] connected with the [illegible] Canadian Association. I have not encountered any investigation of any [illegible] in 10 years. Here we are concerned only with that type of dealer in the world by the [illegible] Securities Commission. I am particularly concerned with [illegible].

shares, at from 15% to 25%. However, the ten Canadian Securities Commissions permit mark-ups in the sale price by an underwriter optionee, distributing as principal, ranging from 100% to any amount which a greedy broker can extract from his victim. In Saskatchewan the maximum permissible mark-up is 100%. Mr. Blakeney, the Chairman of the Saskatchewan Securities Commission prior to my term fixed that permissible mark-up. There is no lower mark-up in Canada, I think. When Saskatchewan raised the question of mark-ups at the 1959 Conference of Canadian Securities Administrators, there was no support for our suggestion that mark-ups in Canada are excessive and that 100% should be a uniform maximum. In one province the broker-dealers' association controls the mark-up. That association has decreed that when one of its members buys and pays in full for an entire issue of shares to be offered to the public (or for his portion of an issue, when more than one dealer handles the primary distribution), he may sell the stock at any price which it will command. The result of this, of course, is that, in that province, a well financed broker-dealer may with impunity distribute a speculative issue at whatever the traffic will bear. He "makes" his own market (by the term "makes" I mean he is supporting and operating an artificial market) by advertising and by high pressure telephone solicitation of the investing public, supporting the market until it ceases to be profitable to do so. At that point he

does what is known in the business as pulling the plug -- withdraws support, and this is true of listed as well as unlisted issues, and the issues in these cases can fall hundreds of per cent in little or no time. One issue that was listed on the Toronto Stock Exchange fell from $3.10 to 25 cents in 1955 without a solitary transaction as it went on its way. The plug indeed had been pulled. In one promotion from that province the distributing broker-dealer purchased shares in the company at 10 cents and distributed it, largely to Americans, at 85 cents per share, a mark-up of 75 per cent. In that province the maximum commission on agency distributions of shares is 25 per cent. Our Canadian promoters are seldom altruistic I suggest. They are bound to make their offerings from a province where they are given carte blanche, once they have paid in full for all of the stock underwritten and optioned. Where $10,000 out of each $850,000 invested by the public reaches the treasury of a company there is little or no hope for the corporate venture. In turn, the national economy is seriously sabotaged by such diversions of much needed capital.

I have previously touched upon objections of the American Securities and Exchange Commission to Canadian speculative securities. Perhaps one or two of the illustrations I offered you are some indication of why they do not like our speculative issues. May I now touch upon co-operation between the two nations in administration and enforcement.

[illegible]

[illegible] known [illegible] going the [illegible] -- [illegible] and there [illegible] of [illegible] as well [illegible] for the [illegible] in these [illegible] can [illegible] of [illegible] or no trade. On [illegible] Stock Exchange [illegible] in [illegible] without [illegible] way [illegible] has [illegible] from that involves the distributing mechanism [illegible] purchased [illegible] the company [illegible] distributed [illegible] cents [illegible] the market [illegible] agency [illegible] of [illegible] per cent. [illegible] more [illegible] the stock [illegible] and [illegible] by [illegible].

[illegible] of the American Stock [illegible]

The S.E.C. and the various provincial Securities Commissions cannot hope to develop disclosure requirements which can be applied on a fairly uniform basis, since this involves developing a substantial measure of unanimity among eleven jurisdictions. I can only leave it to your imaginations to conceive how you can have unanimity between the mark-ups of 100 per cent and several hundred per cent. I do not think there would be much disclosure where the mark-ups ran to many hundred levels. This weakness in the provincial securities regulatory system is significant to the S.E.C. by reason that their investors are particularly unsophisticated in respect of mining ventures, making disclosure acceptable by S.E.C. standards indispensable. A federal Canadian Securities Commission could successfully work with the S.E.C. towards establishing disclosure requirements which could then be applied on a fairly uniform basis. This, in turn, could be expected to eliminate the strong measures which are taken by American authorities to prevent their small investors from financing Canadian speculative issues.

Leaving the need for a Federal Securities Commission in Canada, may I next turn, gentlemen, to a completely different problem confronting Canada in the realm of finance. This problem has to do with the distribution of mutual fund securities to the public. Trading in mutual funds has now reached very important proportions and has undoubtedly caught the attention of persons who have always confined

The S.E.C. [illegible] particular

Securities Commission cannot hope [illegible]

[illegible] would not be [illegible]

[illegible] Since this [illegible]

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jurisdictions. I can only [illegible]

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[illegible] a [illegible]

Commission [illegible]

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their attentions to stock fraud in the realm of speculative securities. With the recent entry into the mutual fund industry of these irresponsible and unscrupulous persons new dangers have arisen and, in my submission, the various provincial Securities Commissions will have grave difficulties in protecting the investing public. I believe that there are three major risks resulting from the entry of these new persons into a hitherto conservative securities trading field. The first, and simplest,danger which I foresee is absconding with the public's money under administration by mutual funds controlled by such individuals. We saw some serious problems in life insurance in Texas in the last decade. Absconding would certainly present a new and serious one in the ones which are administered by mutual funds with these new individuals entering the field, being somewhat different from the people who have been in mutual funds in Canada for many years. The second, and far greater, danger is that persons in control of mutual funds will cause the money to be invested in securities of companies controlled and even wholly owned, directly or indirectly, by themselves. The third danger, the mutual funds becoming so appealing to the public, is that honest but inexperienced newcomers to the mutual fund field will dissipate the public's money through bona fide but unskilled management.

As one step in the direction of coping with the new mutual fund problem, at the 1961 Conference of Canadian Securities Administrators, in

their attention to work itself in the field of speculative securities. With the recent enquiry into the mutual fund [illegible] of [illegible] [illegible] and unscrupulous persons [illegible] have drifted and, [illegible] some [illegible] [illegible] [illegible] [illegible] Commissions still have [illegible] difficulties in protecting the investing public. I believe that there are three major areas resulting from the entry of these new persons [illegible]

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Regina, the Attorney General for Saskatchewan and I instigated the organization of a Mutual Funds Association. May I ask leave at this time to file, as a part of my presentation today, a copy of my address to mutual fund leaders in December of 1961 at Toronto. I respectfully ask that it be deemed to have been read into the record at this time.

"Remarks to Representatives of Leading Mutual Fund Companies at Meeting to Consider Organization of Self-governing and Self-disciplining Association of such Companies - December 4th, 1961.

Gentlemen, Mr. Peterson of the Investors' Growth Fund has been so kind as to invite me to continue my self-appointed task of stimulating the organization of a self-governing and self-disciplining association of mutual fund companies. I have eagerly accepted this invitation, gentlemen, for reasons which I shall outline shortly. Before I say one word, however, let me make it clear that I am addressing you as one administrator, the Saskatchewan Securities Commission's Chairman, and I speak only for our Commission and for our Attorney General, who has expressly authorized me to place our views and recommendations before you, for consideration.

First, gentlemen, may I touch upon the course of events which have resulted in this organizational meeting. As some of those present will recall, at the 1959 Conference of Canadian Securities Administrators, held at Calgary, a brief was presented to the administrators by some

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mutual fund representatives. On that occasion the Saskatchewan Securities Commission took the stand that trading in securities issued by mutual fund companies did not constitute any serious hazard to the investing public of Canada and we declared ourselves much less interested in perfection of the good, the very good and the excellent than in dealing with the outrageous stock frauds then being perpetrated in the realm of trading in speculative securities. Both before and after 1959 the Saskatchewan Commission continued to direct its attention to trading in securities other than trading in securities issued by mutual fund companies. In 1961, however, a very important and dangerous change in what we regarded as a comfortable state of affairs came to our notice, in Saskatchewan. In a moment or two I shall also, with your permission, inform you upon that discovery.

By chance, 1961 was Saskatchewan's turn for acting as host for the annual conference of Canadian Administrators. About three weeks before the meeting, which was held at Regina upon Oct. 26th and 27th, I approached the Attorney General for Saskatchewan, outlined the alarming new development in your part of the securities industry and requested permission to promote the organization of a self-governing and self-disciplining association of mutual fund companies. He gave me that permission

and I made the modest start of contacting the Regina representatives of mutual fund companies doing business in Saskatchewan and actually having an office in Regina. I might just point out that I felt that with nineteen funds registered in Saskatchewan alone the only practical start, in my opinion, was to limit my initial effort to encourage the organization of an association to the very few funds with offices in Regina, where the Administrators' Conference was to be held. To these I added one fund leader whom I knew personally and one who was to be in Regina on other business. I might say that this was not a project of any securities administrator except myself, backed by my Minister, and I did not inform any other administrator of my intention to promote organization of an association, since my activity was not connected in any way whatsoever with the Administrators' Conference, although mutual fund matters occupied a large part of our agenda, for 1961, as it happened. At an informal breakfast meeting with the tiny group of fund leaders who were in Regina at my personal suggestion I outlined briefly my reasons for promoting an organization. I understand that they then discussed some of your problems, quite informally, and decided that a large scale meeting to consider the possibility of and

need for forming an association should be called, at Toronto.

The only other point of possible interest in the history of your being here is that that little group of mutual fund people decided to ask some of the securities administrators other than Cameron what they thought about the whole notion of organizing an association. As you have heard or soon will hear, seven administrators available to consider the question (representing Ontario, Quebec, British Columbia, Alberta, Manitoba, Nova Scotia and Saskatchewan) unanimously supported the idea of your meeting to consider whether organization of a self-disciplinary association it not urgently needed.

In summation, then, as to the background of this meeting, I think that it may fairly be said not to have any background - Cameron pushed the "panic botton" because I don't want to see the investing public of Saskatchewan and the investing public of Canada injured and the mutual fund industry destroyed by one or more debacles of the sort which ruined so many little people and almost destroyed the life insurance industry in Texas, in the fifties. I think that I successfully demonstrated that there is a real danger of debacles in your industry to our Attorney General; I think that I managed to give the

called, at Toronto.

The only other point of possible interest in the history of [illegible] being here is that [illegible] that a group of mutual fund people [illegible] ask some of the securities commissions [illegible]

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tiny group of mutual fund representatives whom I managed to gather at Regina some food for thought; may I now see whether I can demonstrate to you that the need for organization by you of a self-disciplining association outweighs all drawbacks, problems and costs and that, indeed, it may be a question of self-preservation, in addition to preserving the investing public and their obvious confidence in you.

Gentlemen, the Saskatchewan Securities Commission has received convincing evidence that persons with a known history of participation in some of the worst swindles in the history of the speculative securities industry in Canada have now turned to promoting mutual funds. Your industry, as you know better than any securities administrator, has won the investing public's confidence. The stock racketeers know a "good thing" and your industry, gentlemen, is a good thing in 1961. While you have to make your livelihood out of a 7%, 8% or 9% gross take, less expenses, they will have no such struggle. On their past record, if one of their funds takes in $10,000,000 in the next five years, their net will be about $9,000,000, the rest having gone for advertising, operation expenses (which includes bribery of public officials and anyone else who might spoil their operation), etc.,

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etc. If the same fund grosses $50,000,000, the net take will be $47,000,000, for the overhead ratio drops sharply after the first few millions are collected. The racketeers have several such funds already of which we know and more will appear soon, you may be sure. When a particular group of stock racketeers was operating in the speculative field, exclusively, one of their senior employees told me that they were then planning (that was in 1956) their 1959 and 1960 promotions. Gentlemen, they are bank-rolled with millions and they operate with all of the vision and professional skill of the late German General Staff. You will find them a major threat to your part of the securities industry even if you organize...... divided you will be merely spectators at the grisly feast which they will hold upon the investing public. Present indications, gentlemen, are that they may spend up to five years or longer laying the ground-work. In that period of time the racketeers' funds could be five to a dozen in number and by then they should be administering many millions -- you are better able to judge than I how many millions or even tens of millions they will then control. At that point my expectation is that they will invest all of the money, and that is abusing the word invest, in their own dummy companies

and will net every dollar not previously spent on overhead. That is your new competition, gentlemen, and you, not they, will be around to attempt to make a livelihood in the mutual fund business when they are shearing new sheep in other pastures, which will be much greener than yours from that date forward, I suggest.

So much for your competition, gentlemen, if you don't organize an association capable of dealing with them. Now may I turn from looking at your basic new problem to what can be done about it, in some detail.

I have two concrete suggestions, which I offer as regards the manner of organizing such an association:

1. If you decide to organize a self-disciplining and self-governing association, I urge you to study the Investment Dealers' Association. In my opinion there would be no Securities Acts or administrators if every self-disciplining and self-governing securities group matched them in preserving order and justice in their part of the securities industry.

2. I urge you to have your association created by a <u>public</u> Act of the Parliament of Canada. If you study the Broker-Dealers' Act of Ontario and the regulations under it (without troubling to look at that association) -- it is a public Act -- you will see how you can acquire punitive powers which will enable you

to clean up your part of the securities industry before these johnny-come-latelies destroy it and tens of thousands of Canadian investors. Unless you have the force and power of law, and the teeth that only a Legislature can lend to you, I am doubtful that you can form an effective association. The Broker-Dealers Act of Ontario is an Act of a provincial legislature but their members operate only in one province. As many of you must know, the Investment Dealers Association is recognized in the Securities Acts of Ontario, Alberta and Saskatchewan. For practical purposes it is impossible for anyone to be an investment dealer if he is not good enough to earn membership in their association. The Attorney General for Saskatchewan has authorized me to assure you that if you can form an effective association you may expect him to recommend to the Government of Saskatchewan the enactment of similar legislation whereby no company can be a mutual fund company selling its securities in Saskatchewan unless it is good enough to obtain admission to and well enough behaved to be allowed to remain in your proposed association.

However, my Minister has also authorized me to warn you that if you responsible and honest mutual fund representatives will not or cannot form an association with big enough

legal teeth to meet your new problem, we in Saskatchewan will not abandon our people to the fate which is so obviously confronting the victims of the stock racketeers now entering your field. We will, if necessary, recommend to the Government of Saskatchewan enactment of legislation designed to control trading in mutual fund securities, the very securities which two years ago I officially declared our Commission not interested in. Saskatchewan was one of the first Canadian provinces to enact blue sky law, a Securities Fraud Prevention Act -- if we have to be the first to enact mutual fund law, so be it. Every province has a securities Act in 1961 -- I wonder how many will lack special mutual fund legislation in 1971 if you people shirk your share of the responsibility to protect the investing public from mutual fund swindles, gentlemen?

We all know that general legislation affects good companies as well as bad ones -- honest men as well as malefactors. Is it better for you who are honest and have proven yourselves in your part of the securities industry to run it properly, or will it be for legislators and securities administrators to try to solve your problems, however oppressive new legislation might prove to people who have demonstrated that they don't need securities administrators to keep them honest and just? Gentlemen, it

took from 1910 to 1947 to develop good securities legislation -- that is the present Ontario Act, which has since been adopted by Alberta and Saskatchewan. Can you sustain four decades of painful legislation trial and error, in addition to some of the largest and most publicized securities frauds in Canadian history, or would imitating the Investment Dealers and running your own disciplinary show, supported actively by and actively supporting the securities administrators of Canada, not be preferable?

I put it to you that this may prove to be the choice you will be making on December 4th, 1961, whether you will it or not and whether you recognize it or not.

Speaking for Saskatchewan exclusively, of course, if you decide to organize and can produce an effective organization, there are no proper limits to which we will not go to support you. That is also true of helping you organize, of course, if we can and if you request our help. If you do not form an association then we shall have to cope with the problem as best we can and we shall turn to the best among you for as much guidance and help as you can and will lend us. However, our preventive measures will almost inevitably hurt you, since we cannot legislate for the few, whereas a self-disciplining organization can truly cope with

malefactors without there being new law applicable to everyone.

Thank you for your patience and courteous attention. If you have any questions which you would like to put to me, I shall be glad to answer them if I can."

In that address, gentlemen, I outlined the mutual fund problem, as our Attorney General and I perceive it, in detail and I do not think that I can usefully elaborate it today. I might remark that of all threats to the investing public in Canada today, there is none which I consider to be so great and none which I consider more difficult to meet, since it is extremely difficult to legislate or to administer with a view to preventing absconding, mala fide investing and bona fide but incompetent investing of mutual funds under administration. It is the type of problem where it is extremely difficult to "lock the stable before the horse is stolen". since evidence of that which has not yet happened is unavailable. Then this problem of the mutual funds once irresponsible people enter the field, and it appears to Saskatchewan people that some very new types have entered it.

In the view of the Saskatchewan Securities Commission, the mutual fund industry has rendered great service to the people of Canada in the development of our country. We think that the mutual fund industry is deserving of protection from the elements which now threaten both that industry and the investing public, who have had such justifiable

confidence in mutual funds.

May I next turn, gentlemen, to yet another new problem confronting Canada in the realm of finance. There is only one aspect that I wish to touch on. This problem has to do with trust companies. A Canadian trust company is at the present time being prosecuted under the Securities Act, in the Courts of Saskatchewan, by the Attorney General's Department. I am, of course, precluded from offering any comments at this time. May I, however, respectfully suggest to this Royal Commission that an order for a copy of the transcript of the trial evidence -- which is slated probably for late March or April; it has not yet been finally set -- be placed with the Department of the Attorney General for the Province of Saskatchewan. I believe that you will find the evidence very illuminating.

May I now touch very briefly upon miscellaneous problems in securities regulation.

(a) The Saskatchewan Commission has observed that persons who could not hope to operate within the framework of securities legislation are increasingly prone to select exemptions under which to operate. These persons plan their securities trading operations with a view to avoidance of the legal jurisdiction of the Securities Commission or Commissions in whose geographical jurisdictions they propose to distribute securities. No reasonable person can doubt the desirability and importance of

the numerous exemptions provided in the various securities acts in Canada. Some legislatures have empowered their securities administrators to deny enjoyment of the exemptions to persons guilty of conduct which would warrant denial of registration to trade in securities. I raise the question of whether the time may not be coming when it will be necessary to make enjoyment of the exemptions permissive, in the first instance, that is to say, before such a person's first exempt stock selling operation has grievously injured the investing public.

(b) The question has been raised as to whether the brokerage industry should be separated from the underwriting business. In the view of the Saskatchewan Securities Commission there is no need to separate honest and responsible brokers from the underwriting business. Irresponsible and dishonest brokers could be expected merely to join forces with like underwriters or to create nominee underwriters, were any such separation requisite. However, it does appear to the Saskatchewan Securities Commission that power to license underwriters, optionees and promoters could be of assistance in excluding irresponsible persons from the securities industry. I think that Ontario has made the first step in that direction. We find considerable merit in

requiring such licensing but can perceive little reason for separating the brokerage industry from the underwriting business.

Another matter that Mr. Hampson suggested that I touch upon is:( )

(c) Distribution to the Canadian investing public of second mortgages appears to be a growing problem. This activity is not presently within the jurisdiction of any provincial Securities Commission, so far as I am aware. Possibly a requirement for registration of such distributors would benefit the investing public of Canada. Possibly Securities Commissions' machinery is peculiarly suited to licensing of distributors of second mortgages, should such licensing be deemed necessary, in Canada. The Saskatchewan Securities Commission has for several years been charged with the responsibility of registering persons who lease oil and gas rights in land. This function, while somewhat removed from regulation of trading in securities, presents no problem for a Securities Commission, which has suitable machinery for the purpose.

The last matter to which I should like to make reference in this presentation is the special exemption contained in many of our provincial Securities Acts exempting stock exchange primary distributions from the prospectus provisions of those Securities Acts.

It appears that the theory of this

exemption is that our stock exchanges have a sufficient sense of public responsibility and duty to permit of their being substituted for Securities Commissions in determining a proper basis upon which issues may be sold to the investing public of Canada in order to finance the treasuries of the companies in question. Interesting to relate, our legislatures here imposed prospectus requirements upon unlisted issues covering up to five and six pages of our Securities Acts. By contrast, not only are listed issues freed of Securities Commission controls but no legal standards for lising of primary distribution issues are imposed upon t he stock exchanges corresponding to the legal standards for prospectuses imposed upon the Securities Commissions of Canada. A prospectus need not be delivered to the purchaser of a listed stock. I emphasize the fact I am dealing with primary distribution through stock exchanges. Secondary distribution provides no problem that I can perceive. In my submission, gentlemen, listed issues should not be differentiated from unlisted issues, by reason that our Canadian stock exchanges are not living up to the responsibilities and duties impliedly imposed upon them by this special type of exemption for listed issues. May I offer a recent illustration in support of my submission. That our stock exchanges are living up to their responsibilities, if they have any, it seems hard to think at the present time.

At the present time an issue of securities is being distributed to the investing public of Canada which was listed on one of our large Canadian stock exchanges within the last six months. Every share of the stock listed, a matter of many hundreds of thousands of shares, was privately owned at the time of listing. The treasury of the company concerned will never receive one cent from this primary distribution. The issue is being offered to the investing public of Canada for a figure likely to exceed $10,000,000, although the treasury has received, at the outside, not more than $2,200,000. The company's own auditor's figures read about $1,600,000, not $2,200,000 in the treasury. There is ample evidence that almost every share of the stock listed belonged to the promoters, at the time of listing, just enough stock having been sold to the investing public to provide the required number of shareholders for purposes of listing.

That, gentlemen, I think is an interesting illustration of the need for some greater measure of legislative control of stock exchanges. The American Government has a far higher measure of legislative control. That is brought out by Williamson in Securities Regulations in Canada. I cannot but wonder when I notice such issues as this one -- and the company's solicitor gave me these facts -- I cannot but wonder whether our stock exchanges are effectively protecting the public and there is no legislation whatsoever.

It is totally exempted from the Securities Acts.

In my respectful submission, as long as our Canadian stock exchanges are prepared to pave the way for promoters seeking to unload their privately owned shares upon the investing public at a mark-up of four to five hundred per cent, and higher, so long will our stock exchanges continue unfit to enjoy the special exemption applicable to listed issues. The development of all of our Canadian provinces, including provinces which have no stock exchanges, such as Saskatchewan, is seriously prejudiced by the fact that primary distribution of outrageous listed issues are blotting up investment capital which is urgently needed for the development of Canada. Whether perhaps $\$1\frac{1}{2}$ million to \$2 million of \$10 million will see the treasury, the injury to Canada which is occasioned by such primary distribution as the one which I have just described is aggravated by the fact that the investing public of Canada are not widely aware of the fact that primary distributions of speculative issues are being effected through our Canadian stock exchanges. That is true also of most of the American stock exchanges. The common belief is that our stock exchanges are exclusively secondary distribution markets.

I wonder if any person who bought stock in the company I referred to knows that he bought privately-owned stock and about one-fifth of the amount of money the public may be expected to put

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In my respectful submission, [illegible]

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[illegible] regulated by [illegible] capital [illegible]

capital [illegible]

of [illegible]

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[illegible] corporate [illegible]

[illegible] trading [illegible]

that is [illegible]

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[illegible]

[illegible]

in after that -- after they drive the stock up, as the promoters can, it may prove to be in the neighbourhood of one-tenth and not one-fifth of the public's investment will never see the treasury in that instance. Our people have a great respect for our Canadian stock exchanges and should be protected, I submit, from the type of stock operation which is being conducted with impunity under the special exemption for listed issues.

It seems hardly necessary to point out the danger of a conflict of interests in allowing stock exchanges to decide upon the suitability for primary distribution to the investing public of Canada of securities which provide a lucrative livelihood for the members of those exchanges.

Rather interesting in the issue to which I made reference there was a very large underwriting. Taken immediately there are indications that brokerage houses and stock exchange houses right across Canada were allowed to secure that underwriting which was a stock which jumped 370 per cent 73 days later without a change in the corporate venture position.

In summation, upon the matter of primary distributions through the facilities of our Canadian stock exchanges without governmental control of any description, I might point out that the two largest and the two most outrageous stock promotions which I have investigated were primary distributions effected upon two of our three largest Canadian stock exchanges. I have had the odd experience

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[illegible]

[illegible]

of finding a proposed primary distribution entirely unacceptable under the applicable provincial securities legislation, only to see it immediately thereafter commence primary distribution, as a listed issue, through one of our Canadian stock exchanges with the immense aura of respectability these issues tend to have.

Those, gentlemen, are all the points on which I wish to touch. I respectfully suggest that with some of those that are not directly related to provincial versus federal securities commissions that a federal securities commission might be better capable of dealing with all of the problems because of the unanimity of operation.

Thank you very much for your courtesy.

THE CHAIRMAN: Well, thank you for the brief, Mr. Cameron. We have no questions to put. The brief will be filed and will be considered.

MR. CAMERON: Thank you, Mr. Chairman.

HON. MR. BLAKENEY: Mr. Chairman, just before you conclude I wonder if I might make one correction. I inadvertently misled the Commission on a small point and this has to do with farm credit and whether $200 million was the amount needed annually to finance the rationalization of the farming industry. I am advised that the $200 million was the gross amount required to rationalize the farm industry as per five years ago and that additional amounts would be required over the years from farm members from time to time but it is

unlikely that it would be of the order of $200 million per annum.

THE CHAIRMAN: The Commission has now concluded its hearings in Regina and will adjourn until April 9, and at 9.15 in the morning we shall commence our hearings in Winnipeg, Manitoba.

--- Adjournment.

THE CHAIRMAN: The Commission has now concluded its hearings in Regina and will adjourn until April 9, and at 9:30 in the morning we shall commence our hearings in Winnipeg, Manitoba.

--- Adjournment.

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Royal Commission on Banking and Finance

Hearings held at Regina

Vol. 7A

Date. March 23, 1962

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Toronto, Ont.

LIST OF TABLES

PREFACE

A Summary of the Brief Submitted by the Government of Saskatchewan

The institutions through which a nation's savings are mobilized and allocated to the various sectors of the economy are among the most important in our society. If the economy is to grow at an adequate and stable rate capital funds must be allocated so as to permit economic activity in the appropriate sectors. The Government of Saskatchewan is interested in the flow of funds for three reasons:

1. Provincial and local government responsibilities are such that they must sometimes be financed by borrowing.
2. We are concerned that the private and co-operative sectors of the Saskatchewan economy obtain sufficient funds to maintain their activities and to expand them.
3. We are aware of the part that governments can play in promoting economic growth and stability, and we recognize that the availability and allocation of capital are important to the achievement of this goal.

Our Government does not consider itself simply as an "enterprise"; we are aware of the impact of our activities on the Saskatchewan and the Canadian economy, and of the impact of other sectors on our Province and on the economy as a whole Saskatchewan is therefore concerned with the functioning of the capital markets, not alone as a borrower, but as one of the governments which have an influence on economic growth and stability.

Provincial and Local Governments as Borrowers

The responsibilities of provincial and local governments have been growing at an increasing rate. Sufficient funds must be allocated to them in order that they might discharge these responsibilities. Governments should of course meet a large part of their expenditures by taxation. If an adequate level of service is to be provided across the nation it follows that the tax potential of the provinces must be equalized. Each province may then set its own tax rates to provide the level of service it desires.

Even if taxation is used to the appropriate extent there are still occasions when governments must borrow. They borrow to finance undertakings the returns from which are sufficient to meet interest and amortization costs. They borrow to meet "capital humps", since it is not feasible to vary tax rates for this purpose. They should be prepared to borrow in times of economic recession to finance counter-cyclical deficits. By co-ordinating our activities with those of other governments we can help to stabilize the economy, but this will be possible only if we can obtain the necessary funds.

The Government of Saskatchewan and its local governments have experienced some difficulty in obtaining funds to discharge these responsibilities:

1. Investment policies of financial institutions are such that there appears to be an implicit limit on their holdings of provincial and local government securities.
2. There seems to be a time-lag between improvements in the Saskatchewan economy and in the Province's financial position, and improvements in our credit rating.
3. Financial institutions seem to be more familiar with the "credits" of central Canada than they are with those in Saskatchewan. Local governments have experienced particular problems: many investment dealers have failed to display an interest in their bonds. For this reason the Province has felt obliged to provide a substantial amount of capital to its local governments.

Recommendations. We recommend the following improvements in the capital markets to assist in overcoming these problems:

1. Statistical data should be improved: financial institutions should be required to publish their holdings of securities, and public finance statistics should further be improved.
2. The development of specialized investment dealers to handle the debenture issues of smaller borrowers would be helpful.

3. Methods should be found to increase the allocation of funds to junior governments by investors. Portfolio regulation or tax incentives could be considered.

We further recommend that the Government of Canada should increase the amount of funds it makes available for social capital and economic development projects, thus removing from the capital markets some of the provincial and local government borrowing. In particular, we suggest:

4. Continuing social capital and economic development grants and/or loans to finance those projects which are judged to be in the interests of the nation as a whole. This assistance would enable the provinces to finance projects the economic benefits of which are felt beyond their borders. Such a programme would represent an extension and a rationalization of existing grants and loans for housing, technical and vocational schools, hospitals, and regional development projects.

5. These grants should be adjusted during the business cycle so that their effect would be counter-cyclical (see below).

Private Borrowers in Saskatchewan

Though our most direct concern is with the public sector of our economy we are keenly aware of the need for growth in all sectors. In particular, we are mindful of the capital needs of Saskatchewan borrowers, both private and co-operative. We suggest that there exist in the capital markets imperfections which work against the efforts of these borrowers to meet their capital needs. Private businesses in Saskatchewan encounter the following specific problems:

1. The security issues of small and medium-sized firms are often too small for large investment dealers to handle. There are few investment dealers who specialize in marketing small security issues.

2. Many investors seem unaware of developments in the Saskatchewan economy and seem not to investigate adequately the opportunities here.

3. A restrictive monetary policy affects the smaller firm first and most directly.

Recommendations. To overcome these problems we recommend:

1. The development of specialized investment dealers to market small and medium-sized security issues.
2. A private or quasi-public investment corporation which would buy the securities of small firms and sell its own securities as a method of obtaining funds. When the industries whose securities were held by such an investment corporation had proven to be successful the corporation could market their securities.
3. The co-ordination of the activities of the Industrial Development Bank and provincial development funds.
4. The contribution of more loan capital by the Federal Government, and at lower interest rates, in regions most in need of industrial development.
5. The introduction by the Federal Government of tax incentives to encourage the establishment of industry in these regions

Co-operatives have attempted to meet their own capital requirements, with occasional government assistance to stimulate the development of co-operative financing.

We recommend that the Federal Government should consider assisting co-operative financial institutions and in particular it, and perhaps the provinces, should make capital available to the Canadian Co-operative Credit Society to assist the Society in making loans to its member co-operatives.

Farm borrowers, too, face real difficulty in meeting their capital needs. The main reasons are:

1. The very large outlays required to establish an economic farm unit.
2. The inability of many farmers to provide the collateral security required.

3. The limit on the amounts which can be borrowed under the Farm Improvement Loan Act.

4. Fixed repayment terms which are not subject to variation as crop yields fluctuate.

Recommendations. We recommend that:

1. Less reliance should be placed upon collateral security for loans, and more upon the character of the borrower and upon adequate supervision of loans. This is particularly so with respect to Farm Credit Corporation loans and the bank loans guaranteed under the F.I.L.A.

2. More flexible repayment schedules should be provided, enabling deferred payments in poor crop years. In addition, more extensive use should be made of the crop share plan.

3. The limit on loans under the F.I.L.A. should be raised to correspond more closely with the higher capital requirements of modern farms.

4. The Federal Government should guarantee credit union loans to farmers on approximately the same terms as the guarantee under the F.I.L.A.

Government Financial Operations and the Economy

The Government of Saskatchewan, in company with other governments, is able to exert a significant influence on the direction of economic activity. We believe that in recent years fiscal policy in Canada has been less effective than it might have been. The provinces have not participated to the extent that they could, and federal fiscal policies seem not to have been adequately planned, and sometimes to have been poorly timed. The co-ordination of the financial operations of all levels of government could do much to achieve more stable economic growth. This in itself would contribute greatly to the solution of many of the financial problems of junior governments.

Provincial governments are reluctant to embark upon counter-cyclical deficit financing since they realize that the resulting economic

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Provincial governments are reluctant to embark upon counter-cyclical deficit financing since they realize that the resulting economic

benefits frequently are felt beyond their borders. With federal leadership and assistance this difficulty would be overcome.

Recommendations. To facilitate national economic planning we propose:

1. A permanent committee of ministers of finance and provincial treasurers which would meet toward the end of each year to discuss the economic outlook, and to consider desirable budgetary policies.
2. The contribution by the Federal Government of funds to provincial governments to enable them to embark upon appropriate counter-cyclical policies. These grants would finance expenditures in an area of the economy where capital structure is chronically deficient, namely social capital.
3. The acceleration in times of recession of a federal-provincial economic development programme which would have as its primary purpose the stimulation of long-run economic growth.

Financial Institutions and the Capital Markets

We as a government have not presumed to catalogue the rigidities and imperfections of the capital markets. There are, however, selected aspects upon which we do comment:

1. The increasing concentration of financial institutions lends emphasis to the need for an examination of the conventions of and perhaps the rigidities in their investment decisions. Governments have sought in the past to influence these decisions; some further direction to these influences may be found to be warranted.
2. The growth of public interest in pension plans and the unique contributions which governments can make in this field suggest that an integrated government pension plan is desirable.
3. Because monetary policy is one of the important instruments of economic planning we suggest that the Bank of Canada Act

should make clear that the central bank is an arm of federal economic policy. We further suggest that the Bank be empowered to employ selective credit controls in addition to the general credit policies for which it is responsible.

4. We recommend that financial institutions making personal loans be required to disclose the effective rate of interest being charged.

5. We propose that federal leadership should be required for the development of uniform and effective legislation governing new security issues.

6. We express the hope that as a result of this Commission's work adequate data will in the future be available in respect of the capital markets and the flow of funds.

INTRODUCTION

1. The Government of the Province of Saskatchewan welcomes the opportunity to appear before this Royal Commission and to present its views on the subject of banking and finance. We are conscious of the great importance of the matters which the Commission has been asked to examine and we regard your appointment to this task as an event of great importance to the future welfare of Canada.

2. The appointment of the Commission must, indeed, be regarded as an event without precedent in the financial history of Canada. Without wishing to depreciate in any way the important work of the Macmillan Commission of 1933 or the various investigations of banking and finance by the Standing Committees on Banking and Commerce of the House of Commons and the Senate, we feel that it may be fairly said that no previous inquiry into these matters has been cast in as broad and comprehensive terms as that undertaken by this Commission. Nor, we may say, has there ever before been such a widespread feeling in Canada that the operations of our financial institutions require a study that is broadly conceived and carefully executed. Along with many other Canadians we look to this Commission for a report on our financial system which will stand as a definitive survey of its present organization and modes of operation, and which will chart the course we should follow in adapting our financial system to the needs of the Canadian economy and of the Canadian people.

3. This Commission sits at a time when Canadians are seriously disquieted concerning the state of the economy. The problems of achieving economic stability and eliminating the dreadful economic and human wastes of unemployment are of great concern. The promotion of economic growth, the development of the social sectors of the economy, and the direction of economic activity towards meeting the human needs of a progressive civilization are pressing questions. Our economic and financial relations with other nations are matters for deep anxiety.

4. These things, taken together, encompass a wide range of economic and social questions, some aspects of which undoubtedly fall outside the terms of reference of this Commission. However, it is our view that the operations of private and public financial institutions, and the financial

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4. These issues, in our opinion, encompass a wide range of economic and social questions, some aspects of which may technically fall outside the terms of reference of this Commission. However, it is our view that the

policies and activities of governments are closely connected with all these matters. Any satisfactory solution will require that our financial structure and private and public financial policies and operations be adapted to the needs of the times. Consequently, the Government of the Province of Saskatchewan expresses both hope and confidence that this Commission will interpret its responsibilities in broad and comprehensive terms. Finance is not merely an industry, on the same plane as any other, in the modern economy. It does not merely produce services that are important in themselves. Finance stands at the centre of the economic process. It deals with the fundamental matters of exchange and investment on which all other economic activities depend.

5. We note that a broad approach to financial problems was adopted by two other commissions, similar to this one, that have reported in recent years, the (Radcliffe) Committee on the Working of the Monetary System in the United Kingdom and the Commission on Money and Credit in the United States. The reports issued by these commissions have attracted widespread international attention as fundamental documents dealing with the role of the monetary system in the modern economy. In both cases, these commissions have cast the nets of their interest very wide and have examined not only financial institutions and financial problems as such, but all areas of economic activity, problems, and policy, with which finance is connected. The Government of Saskatchewan believe that the greatest service can be rendered by this Commission if it adopts a similarly broad interpretation of its task.

6. We have attempted, in like manner, to interpret broadly the role of a province in the national scene. It is true that the Government of Saskatchewan is a borrower and we will speak as such. Likewise we have an interest in other borrowers in the Province - public, private and co-operative - and will seek to speak for them. But we cannot limit ourselves to our role as an "enterprise" seeking funds from the capital markets. Like other provincial governments we are participants in the nation's economic processes, anxious to play a co-ordinate role in achieving the paramount goals of economic growth, economic stability, and social progress.

7. The tasks and duties of government have expanded to an unprecedented degree in the past generation or so. In addition to the more "traditional" functions of government, legislatures and cabinets find

policies and activities of governments are closely connected with all these matters. Any substantial alteration will require that our financial structure and private and public financial policies and operations be adapted to the needs of the times. Consequently, the Government of the Province of Saskatchewan expresses both hope and confidence that this Commission will interpret its responsibilities in broad and comprehensive terms. Finance is not merely an industry, on the same plane as any other, in the modern economy. It does not merely produce services that are important in themselves. Finance stands at the centre of the economic process. It deals with the fundamental matters of exchange and the means on which all other economic activities depend.

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6. We have no intention, in this statement, to interpret broadly the role of a province in the national economy. It is true that the Government of Saskatchewan is a borrower and we will speak as such. Likewise we have an interest in other borrowers in the Province — public, private and co-operative — and will speak on their behalf. But we cannot limit ourselves to our role as a borrower seeking funds from the capital markets. Like other provinces, in many ways we are participants in the nation's economic processes, and we can play a co-ordinate role in achieving the paramount goals of economic growth, economic stability, and social progress.

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themselves involved in a variety of activities that are designed to promote economic growth and stability, and to orient the behaviour of the economy towards the achievement of desirable social ends. These objectives are forwarded by the legislative power of government, by monetary management, and by the appropriate ordering of government's own fiscal and financial operations.

8. It is the view of the Government of Saskatchewan that these objectives must be a primary focus of the financial and fiscal operations of all levels of government, federal, provincial and municipal. Junior governments have not usually been thought to bear much, if any, responsibility for the large economic objectives of growth and stability, since such problems are usually regarded in national, rather than regional or local terms. Moreover, it is quite clear that the more important and relevant powers of control and regulation, especially in the area of finance, belong constitutionally to the federal level of government. Nevertheless, it is our firm view that the problems of maintaining economic stability and growth are of such a nature that the junior levels of government must play a co-ordinate role in achieving the desired aims. What is needed is federal leadership, not alone in devising appropriate federal policies, but also in achieving the necessary co-ordination of provincial and federal financial and fiscal policies.

9. It is from this national, as well as the provincial perspective, that we have prepared this brief. Five major topics will be considered. Firstly, we will discuss the financial requirements of the Government of Saskatchewan and its local governments, and the extent to which these are being satisfied through the capital markets. We will describe some of the difficulties which we have encountered and suggest some possible remedies. Secondly, we will consider the experience of other Saskatchewan borrowers in the capital markets - co-operatives, private firms, and farmers. Then we will move from the provincial to the national scene and examine the impact on the Canadian economy of the financial policies of all levels of government. We will emphasize the effect of federal policies on economic growth and stability and the need for co-ordinated federal-provincial economic planning. Finally, we will comment on some aspects of the organization and processes of the capital markets.

II. SASKATCHEWAN GOVERNMENTS AND THE CAPITAL MARKETS

The Financial Responsibilities of Junior Governments

10. Our first concern as a provincial government is necessarily with our financial needs and those of our local governments. These are the product not so much of autonomous governmental spending decisions, but far more of the broad social and economic trends which we in this nation are experiencing. It is true that governments have some latitude in their spending decisions, and that they are influenced in these decisions by their willingness to tax and their ability to borrow. But government spending patterns are determined in the last analysis not by governments but by public attitudes - attitudes as to the objectives which governments should seek to attain, and the services which they are expected to provide. So we must start with these social trends and end with our performance as borrowers in the capital markets.

11. The B. N. A. Act confers upon the junior governments of Canada certain areas of responsibility that have grown greatly in importance since 1867. The Fathers of Confederation might have imagined, but certainly could not have anticipated, the great increase that would take place in the demand for government sponsored and supported education, health, and public welfare services in Canada. They did, we well know, have a clearer appreciation of the country's need for transportation facilities, but they could not, of course, anticipate the automobile and the impact it would have on the demand for highways and streets. These four areas, education, health, welfare and transportation (including communications) now account for three-quarters of the total expenditures of provincial governments.[1/] (The exact distribution among these main categories varies a good deal from province to province and there have been some significant changes over time, reflecting the decisions of various provinces to embark on large new programmes or to raise the level of their services to a new plateau.)

1/ Canadian Tax Foundation, Tax Memo No. 29, Jan. 1962, p. 8. This includes provincial contributions to municipalities for this purpose.

12. The areas of provincial-municipal expenditure that now make up the bulk of the budgets of junior governments all continue to expand without abatement and there are excellent reasons to believe that we have yet a long way to go in most areas before we can envisage, or indeed desire, any slackening of the rate of growth. The field of education, for example, is clearly in great need of further development. As we attempt to open the doors of personal development and economic advancement to larger and larger numbers of young people, we find that junior governments must accept responsibility for making very large capital and recurring expenditures for educational facilities and services. Education is today one of our most important "industries" but it is, by its own essential nature, and because of the purposes we wish it to serve, an "industry" which cannot sell its services in the market place to whomever has the means and inclination to buy them. We have already made educational services almost free to all children in Canada at the public school and well into the high school levels. The Government of the Province of Saskatchewan feels that the principle of free education will ultimately be carried further, into university and post graduate education, professional training, vocational training and adult education. These facilities will have to be paid for out of government funds. We must look forward to spending larger, much larger, amounts in the future for capital facilities for education, for teachers' salaries and other current expenses, and for scholarships and other financial assistance to students.

13. Similar remarks must be made with respect to health services. It becomes increasingly clear that society is not prepared to purchase medical and hospital services on the open market, with charity care for those who cannot afford to pay and "premium" care for those who can. Health and medical services must be available to all people without specific charge. As in education, this involves large governmental expenditures, financed from general sources, on hospitals, laboratores, salaries, fees, etc.

14. Welfare services, too, may be expected to expand as social attitudes change. Canadians no longer accept the glib assumption that anyone who really wants to work can get employment. We recognize that we

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have an obligation to the unemployed, to those who are underprivileged whether by reasons of health or personal adversity, and that families must be cared for even if the nominal breadwinner is judged to be indolent.

15. The list could be extended to provincial government activities that involve the rendering of services that cannot be priced for specific sale (for example, very few roads can be, or should be, toll roads). This means a great increase in the financial responsibilities of provincial governments that must be met out of general funds.

16. The same can also be said for local governments.[2/] They with provincial governments are responsible for financing schools and hospitals, libraries and museums, roads and streets. In some provinces, like ours, they also provide special services, such as rural telephones and special agricultural programmes.

17. In point of fact, municipal services play a very substantial role in determining the "quality" of modern living. It is difficult to measure exactly how valuable it is to have adequate market roads and clean well-lit streets, modern water and sewage disposal systems, well-trained police and welfare services and the large number of other things that fall under municipal jurisdiction. But our Government feels that such things make a great deal of difference indeed to the spirit of the people, whether they live in rural areas, in towns or in cities.

18. In addition to the services that municipal governments render to their citizens, they also have very important tasks in connection with the servicing of modern industry. The provision of good access roads and streets, water and sewage facilities, fire protection, etc., are important factors in industrial productivity and it falls to the responsibility of municipalities to provide them. These municipal responsibilities, like the others mentioned above, have been expanding very greatly in recent years.

2/ It is very difficult to draw distinctions between provincial and municipal levels of government since the two are bound very closely together both legally and financially. In Canada in general, about 25 per cent of provincial expenditures consist of grants to municipalities. The proportion in Saskatchewan is somewhat higher than this - 29 per cent in 1961-62. See Canadian Tax Foundation, Tax Memo No. 29, January 1962, p. 8.

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19. Many of these increased financial responsibilities of junior governments are the result of an expansion of services in areas that were already established as areas of governmental concern in 1867. In addition, however, new areas of responsibility have arisen. A century ago, it was regarded as sufficient to leave the provision of cultural amenities either to private enterprise or private philanthropy. If a centre of population was large enough it might have a commercial concert hall or theatre company (and few centres in Canada proved to be large enough). A library or an art gallery or a museum might be provided by private philanthropy. We now recognize that this is not sufficient for a modern civilization. The facilities for art, music, drama, literature and learning ought not to be regarded as optional; they are, increasingly, the staff of life to a modern civilization.

20. The Government of Saskatchewan is keenly aware of the financial implications of these growing responsibilities of junior governments. As these activities grow, the difficulties of finance have grown also but we would like to make it clear that we do not share the views of those who regard the expansion of governmental services with alarm and would seek to reduce them. These services have grown for good and sound reasons and they must continue to grow considerably farther in the future.

Financial Policies of Provincial Governments

21. It is in this context of increasing governmental responsibilities that a province's financial decisions are made. And there are three such decisions: how much to spend, how much to tax, and how much to borrow. The first of these, how much to spend, is influenced largely by the upward trend in public services of which we have spoken. But they are affected also by a government's willingness and ability to tax and its willingness and ability to borrow. The second decision, how much to tax, likewise is influenced by the urgency of the spending requirements. But there are other factors, notably the present tax structure of the community and the government's borrowing capacity. The third decision, how much to borrow, again is governed by the demand for government services, but it too is influenced by the government's tax potential and present levels of taxation.

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22. So we cannot say that financial decisions are made in simple order: spending, taxing and borrowing. What is apparent is that the spending decisions are the most compelling, not alone by reason of society's judgment as to the role of government, but also by reason of the government's views as to the social and economic policies which will benefit the community.

23. This being so, a prudent government will first turn its mind to the ability of the community to pay for these services - its tax potential. For it would be foolhardy to suppose that the financial needs of junior governments can simply be met by better access to capital markets. True, there are times and there are reasons for borrowing, and to these we will turn in a moment. But in the long-run, community consumption must be met by community contributions, and this is possible only when there is a sufficient tax potential.

24. To an important extent a province's tax potential is determined by the accidents of nature and constitutional history, and by the unplanned effects of national economic policy. This commission needs no references to the reports of the Rowell-Sirois Commission or to other fiscal studies to prove that this is so. What is more, today's facts speak for themselves: the provincial shares of income and estates taxes yield widely different amounts across the nation - about $45 per capita in Ontario, $20 in Saskatchewan, $15 in Newfoundland.[3/] That this is so would scarcely be a matter of concern if Canadians were prepared to assume that a poor Canadian should have a poor education and poor health and welfare services, and that a rich Canadian should have excellent services. Nor would it concern us if we were satisfied to see inadequate levels of economic development expenditures in poor provinces, and adequate levels in rich ones.

25. Tax potential is a primary problem; it must take precedence over borrowing problems. We do not suggest it is one which this Commission should be expected to solve, but we do suggest that its solution is a prerequisite to meeting the financial problems of junior governments.

3/ Department of Finance, Final Calculation of Standard Taxes, Equalization, and Stabilization for the fiscal year 1960-61, December 21, 1961.

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[1] Department of Finance, Final Calculation of Standard Taxes, Equalization, and Stabilization for the fiscal year 1960-61, December 21, 1961.

Federal-provincial fiscal conferences have grappled for many years with the need for equalizing provincial tax resources, and with the question as to how much "tax room" the provinces need to fulfill their responsibilities. Out of these have come unconditional tax transfers from the Federal to provincial governments, and financial assistance for particular programmes. But we urgently need a rational system for equalizing tax potential across the nation, in order that the basic fiscal needs of all the provinces can be met.

26. This is not an argument for federal taxation as a substitute for provincial taxation, though in point of fact provincial tax levels have risen sharply since the war. There has been a tendency for the Government of Canada to reduce individual income taxes, and for the provinces to increase consumption taxes. The resulting national tax structure is unquestionably less equitable in consequence. Nor are we building a case for a review of federal equalization payments or of Canada's tax structure, however necessary they may be; rather, we are trying to make clear our concern that government services be soundly financed. We know that a government cannot spend without taxing and borrowing, and that it cannot long expect to borrow if it does not keep its credit sound by maintaining a reasonable balance between revenues and expenditures.

27. The Government of Saskatchewan has demonstrated its willingness to tax in order to spend. Since 1945 all budgetary expenditures - ordinary and capital - have been covered by revenues; indeed the Province's net debt has been reduced from $145 to $25 million. So when we speak of our experience as a borrower in the capital markets we believe we speak as a prudent one, not an improvident one.

The Government of Saskatchewan and the Capital Markets

28. The principal interest of a Commission on Banking and Finance must, by virtue of its specific terms of reference, centre on the activities of junior governments as borrowers. It is as borrowers that provinces and municipalities come most specifically into contact with the financial institutions of the country and are most affected by any deficiencies in their structures or modes of operation.

29. Provincial and local governments are in one sense "enterprises" like any business firm. They borrow in the capital markets to finance some activities the returns from which are expected to meet both interest and amortization costs. But in another sense they have responsibilities similar to those of national governments. They are expected to finance projects which are justified on the grounds that social or economic benefits to the community are greater than the interest and amortization costs of the debt which may be incurred to finance them. This is so whether or not the government revenues which are generated as a by-product of the resulting increases in economic activity are sufficient to meet the debt charges. In these circumstances such charges can only be met by increased taxation or by reduced services.

30. The case for the first kind of provincial government borrowing is quite straightforward. The capital requirements of a publicly-owned utility, for example, are met by borrowing, providing that the increased returns to the utility resulting from the investment are sufficient to meet interest and amortization costs. The same is true of other projects - toll bridges, or even roads where, not toll charges, but gasoline tax and motor licence revenues are expected to meet the debt charges.

31. The case for borrowing in the second case is not as self-evident. There are many projects, for example roads, where the economic returns from the assets constructed are equal to the interest and amortization charges which would have to be met if they were financed by borrowing, but where the revenue which they generate does not meet these charges. The same may be said of educational services, at least theoretically. The Government of Saskatchewan is convinced that the educational services it now provides and the extensions it contemplates can easily be justified on the strict grounds of economic activity alone. (The economic benefits of these services are rather difficult to measure and the non-economic benefits of education in our view should not be regarded as secondary in any way.) But again it cannot be said that the revenue which is indirectly generated will equal the debt charges assumed.

32. From the vantage point of a junior government, then, financing these projects by borrowing necessarily implies meeting a large part of

the interest and amortization costs from general taxation. As a result, our Government has followed the general policy of financing such projects from general revenues, providing that the capital requirements involved are fairly continuous, and represent a relatively fixed proportion of total expenditures.

33. A national government can, to a considerable extent, take a different view. If the benefits to the economy of any project are equal to the debt charges assumed, the Federal Government is able, on economic grounds, to justify borrowing to finance the project, even if an increase in the money supply is required. A strong case could be mounted for the Federal Government taking a similar view with respect to such projects in the provincial domain. If they did, many projects which would contribute to economic growth, but which are deferred by the provinces for financial reasons, would be undertaken.

34. We have said that except when the Province is acting as an "enterprise" we have followed the general policy of financing capital expenditures from revenues. There is an obvious exception to this policy: when fixed capital needs are not smooth or continuous. New government programmes, population shifts, the reorganization of social capital facilities (school consolidation or the provision of hospital services), or major reconstruction of capital plant (for example, highways), all may create "capital humps". In these circumstances it would be unrealistic for a government to increase its taxation for the short span of years during which capital expenditures are higher than they normally are.

35. This is a particular problem for local governments, for the smaller the unit of government the more likely it will encounter "capital humps". Table I illustrates this point: the bodies responsible for hospital and school construction have encountered these capital humps even when considered in the aggregate. The problem is much more pointed for individual municipal authorities.

Table 1

Public Capital Expenditures In Saskatchewan
(for fiscal years ending nearest December 31)

Year	Government Departments	Sask. Power Corporation *	Other Crown Corporations*	Hospitals **	Schools	Municipalities
	(thousands of dollars)					
1948	5,109	3,180	4,461	2,589	2,682	5,057
1949	5,036	3,623	4,101	3,807	3,322	6,659
1950	6,057	5,992	4,630	2,916	4,252	6,701
1951	9,712	8,102	5,760	2,433	3,763	5,162
1952	14,746	11,446	5,693	1,859	5,060	8,950
1953	15,689	17,150	9,000	1,707	6,152	8,045
1954	19,730	15,354	11,454	3,309	7,962	11,936
1955	17,113	24,946	9,686	15,984	6,610	11,932
1956	18,831	35,385	13,208	5,177	8,969	16,472
1957	21,100	45,027	13,720	2,701	10,128	20,931
1958	24,805	58,649	12,019	3,713	11,203	23,088
1959	23,936	62,951	9,249	3,225	16,416	25,562
1960	22,631	58,835	8,160	5,008	18,127	23,984

* Data for Crown Corporations are based on the year over year change in fixed assets, before the deduction of depreciation reserves, as shown on the balance sheets of the various Corporations.

** Data for hospitals includes the University Hospital and private hospitals.

36. There is a further exception to the Province's policy of meeting "normal" capital expenditures from revenues. Because we are anxious to co-operate with the Federal Government in combatting recessions and unemployment, we are prepared intentionally to incur moderate deficits when the economy is faltering. When we do this, we are fully aware that the resulting economic benefits will not be enjoyed by Saskatchewan alone, and that our revenues will not increase (indirectly) by an amount equal to the debt charges incurred. It is

clear that appropriate Federal policies would encourage provinces to participate more actively as partners in a federal-provincial plan for stable economic growth.

Determinants of Borrowing Decisions in the Government of Saskatchewan

37. The financial policies of junior governments, such as these we have described, give the key to their behaviour as borrowers. But there are more specific factors which influence our borrowing behaviour, and in these the Commission may be interested.

38. The first of these is the Government's judgment as to the extent of its borrowing capacity. It is generally assumed by the participants in the capital markets that there are very real limitations as to the extent that an individual "credit" can exploit the long-term bond market. It is assumed that the borrower may increase the amount he borrows by paying a higher rate of interest, but even this power over the amount which the province can borrow is limited, for it is assumed in the financial markets that the lenders will make available only a certain percentage of their portfolios to the bonds of a particular credit, even if that credit is willing to pay a higher rate.

39. This judgment as to the amount which can be borrowed in the long-term Canadian bond market is influenced considerably by the borrowing behaviour and the monetary and financial policies of the Federal Government. If the Federal Government incurs very substantial deficits and enters the capital markets for the purpose of financing these deficits (particularly when the Bank of Canada is not increasing the money supply correspondingly), the provinces encounter greater difficulty in obtaining funds and they pay more for them. If the N.H.A. interest rate is high in relation to the yields on long-term bonds the provinces will find themselves competing with the N.H.A. for the nation's savings. If the monetary policy of the Bank of Canada results in higher interest rates and credit rationing the provinces undoubtedly are affected. On the opposite side, the Federal Government may diminish the necessity for the provinces exploiting capital markets by making loans to them for specific projects, or by equalizing their revenue potential.

clear that appropriate [illegible] policies would [illegible] provinces to participate more actively [illegible] in the [illegible] of growing [illegible] stable economic growth.

[illegible] of Borrowing [illegible] of Institutions

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[illegible] The first of these is the Government's [illegible] extent of its borrowing capacity. It is generally assumed by the [illegible] in the capital markets that there are very real limitations as to the extent [illegible]. It is assumed that the [illegible] but [illegible] the province can [illegible] but it is assumed [illegible] that the lenders will [illegible] only a certain [illegible] of their portfolio to the bonds of a particular [illegible] if that credit is willing to pay a higher rate.

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40. The second factor which influences our borrowing behaviour is the borrowing patterns of other provincial governments. These have a marked effect on the ability of the Province of Saskatchewan to exploit the capital market. Several provinces, for example, have been deficit financing to a substantial extent (in terms of the D.B.S. form of accounts),[4/] and this has meant that financial institutions either must increase the percentage of their portfolios being made available for provincial bonds, or alternatively, they must be prepared to contract their purchases of the bonds of some provinces in order to make available more funds for the bonds of the provinces financing heavy deficits. We are unable to say authoritatively what the behaviour of financial institutions is, but our feeling is that there is a tendency for these institutions to place some sort of limit on the amount of their investment portfolio which will be made available for provincial and municipal bonds. If this is the case then there is no doubt that the borrowing patterns of other provinces will affect either the ability of Saskatchewan to borrow or the rate of interest it pays, or both.

41. The third factor of considerable significance is the attitude of financial institutions as to the "financial prudence" of the Province of Saskatchewan. It is not enough that the Government of Saskatchewan itself exercise some judgment as to the limits it should place upon the amount it is prepared to borrow; it is equally important that the lenders, the financial institutions, agree that the self-imposed limits are the correct ones. Otherwise the Province's credit will deteriorate, leading to higher interest rates and ultimately to a limitation on the ability of the Government to borrow.

Markets Exploited by the Government of Saskatchewan

42. The Government of the Province of Saskatchewan has exploited the following markets:

1. The Canadian long-term bond market, including not only the market in general, but also the "home market" of funds administered by the Government of Saskatchewan.

4/ See Table 1 in the Statistical Appendix (Appendix A).

2. The Canadian short and mid-term bond markets, including the specialized market which the chartered banks provide.
3. The money market, in which are sold short-term low coupon bonds and Treasury Bills.
4. The Savings Bond market in Saskatchewan to which are sold ten-year Saskatchewan Savings Bonds, redeemable at par at any time at the option of the holder.
5. Foreign long-term bond markets including both the U.S.A. and Switzerland.

Saskatchewan has not exploited the corporate bond market (through the sale of unguaranteed bonds of the provincially owned utilities), nor the allied "lease-back market", which could be used to finance the construction of government buildings (as at least one province has done).

43. There are a number of objective facts which we face in making our decisions as to which of these markets to exploit. These facts, together with certain judgments which must be made determine which markets will be exploited.

44. The first matter is the availability of capital. Other things being equal the Government of Saskatchewan has a strong preference for borrowing in Canadian markets, providing these markets are able to meet the Government's requirements. There has been a strong suggestion from most investment dealers that there is a clear limit as to the amount that any province can borrow in the long-term bond market. As a result the Province has been faced with a choice between a limitation in its borrowing programme (which in the case of the utility programmes is extremely difficult, and at times virtually impossible) or the exploitation of other markets. These other markets have included the U. S. market, the savings bond market in Saskatchewan, and the money market in Canada.

45. Once a borrower undertakes to exploit foreign bond markets, the savings bond market, or the money market, he recognizes that he is assuming certain risks - an "exchange risk", a "refunding risk", or a "redemption risk". In each case the province must form some judgment as to the extent of the risk being assumed, and the seriousness of that risk in relation to the province's need for capital. The levels and structure of interest

rates exert a considerable influence on these decisions. If the rate of interest in the long-term bond market seems high, relative to foreign interest rates, there will be a strong tendency to borrow in foreign markets. Similarly, the structure of short and long-term interest rates will influence, at least in the short-run, the Province's decisions concerning the form of its borrowing.

46. If the structure of rates influences the Province's policy as to the markets it will exploit, it is obvious that the exchange rate will exert a similar influence. When a borrower is considering the foreign bond markets, he will be influenced not only by the "spread" between Canadian and foreign interest rates, but also by his expectation concerning the future value of the foreign currencies expressed in terms of Canadian dollars. Also important is the expressed policy of the Government of Canada; if it is attempting, as a matter of national policy, to dissuade borrowers from exploiting foreign markets, the Government of Saskatchewan will have a strong inclination to co-operate. Similarly, if it is the general view of Canadian investors that it would be imprudent for Saskatchewan to borrow in foreign markets, we would be inclined not to do so in order that our credit in Canadian markets might not be impaired. It must be emphasized, however, that these influences upon the Province's decisions concerning the markets it will exploit are in competition with the "arithmetic" of the advantages and disadvantages of borrowing in markets where there is an implied exchange or other risk.

47. All of these factors have led the Government of Saskatchewan to accept the following general policy:

1. The Canadian long-term bond market will be exploited to the extent that the Province is advised by private underwriting firms to do so, providing that our judgment in this matter does not differ substantially from the advice we receive.

2. We are prepared to exploit the Canadian money market to the extent that it seems reasonable to expect that the money market is able and willing to provide Saskatchewan with funds on a long-term basis. To express this in a negative

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way, the Government is unwilling to exploit the money market to an excessive degree when the economy is highly liquid, since we recognize that when economic conditions change, and there is a state of illiquidity, we would not be able to sustain previous levels of borrowings in the money market.

3. Currently we are prepared to sell approximately $10 million of savings bonds per annum in the Saskatchewan market. Our limited experience to date suggests that these bonds are purchased almost entirely by individuals, and that the rate of redemption is not excessive. (The premium which is payable upon maturity of the Savings Bonds acts to discourage redemption of these bonds in the event of higher interest rates in the future.)

4. We have been prepared to exploit foreign markets when the availability of capital in Canada has been in question and when the interest rates have substantially favoured U. S. borrowing.[5] It is clear, however, that the straight "arithmetic of advantage" must be set off against the "moral suasion" of the Government of Canada and the opinions concerning this matter entertained by the financial community.

Saskatchewan's Success in Exploiting These Markets

48. Table 2 in the Statistical Appendix shows the extent to which the Province of Saskatchewan has borrowed in each of the above markets. It is not sufficient, however, simply to know what amounts of Saskatchewan bonds were sold in each market; it is more important to form some impression as to the success which the Province has met in the sale of its securities to the financial institutions which make up a market. It is equally important to know how the Province of Saskatchewan is faring by comparison with other provinces in selling its bonds to financial institutions. Data on such matters are not readily available, but such investigations as we have been able to make suggest that the Province of Saskatchewan has not fared as well as some other provinces in the sale of its bonds to Canadian financial institutions.

5/ See C.G. Bale "On the Exchange Risk of Borrowing Abroad", Canadian Journal of Economics and Political Science, February 1961.

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Saskatchewan's Success in Exploiting These Markets

48. Table 7 in the Statistical Appendix shows the extent to which the Province of Saskatchewan has borrowed in each of the above markets. It is not sufficient, however, simply to know what amounts of Saskatchewan bonds were sold in each market; it is more important to form some impression as to the success which the Province has met in the sale of its securities to the financial institutions which make up a market. It is equally important to know how the Province of Saskatchewan is faring by comparison with other provinces in selling its bonds to financial institutions. Data on such matters are not readily available, but such investigations as we have been able to make suggest that the Province of Saskatchewan has not fared as well as some other provinces in the sale of its bonds to Canadian financial

[24] See C.C. Bale "On the Exchange Risk of Borrowing Abroad", Canadian Journal of Economics and Political Science, February 1961.

49. It is difficult for a province to speculate as to the factors which influence the judgments of a financial institution in respect of its securities. However, some general impressions have been formed in the minds of those whose job it has been to sell Saskatchewan securities over the past decade. Firstly, we are told that there is a tendency for investors to think of Saskatchewan in terms of the 1930's - an agricultural economy subject to the vagaries of an uncertain nature. The remarkable diversification of Saskatchewan's economy over the past ten years, and the greater viability of the agricultural economy as such are not disputed by investors, but many of them, we are told, are inclined to form their judgments on the basis of their memory of the "old Saskatchewan".

50. Secondly, investors located in Ontario and Quebec have a much greater familiarity with "credits" in the central provinces than with those in the Prairie region (and we suspect, the Atlantic region also). There is a tendency, therefore, for the funds administered by a trustee to be invested in these "better-known credits", with Saskatchewan bonds taking a poor third or fourth place.

51. Thirdly, it seems to us that an insufficient emphasis is given by financial institutions to the financial prudence of the various provincial governments. There are, for example, certain provinces whose rate of deficit spending has been such as to make them constant borrowers. When the Saskatchewan Government compares her financial record with this deficit financing she might reasonably expect her bonds to have a quite superior rating in the market. But the facts are otherwise: a "well-known credit" seems to be able to deficit-finance for quite long periods of time without impairing her credit rating. Perhaps it is the extremely confusing accounting system used by many provinces which results in this anomaly; perhaps it is a matter of simple habit.

52. The Province has made strenuous efforts to overcome these difficulties. The Provincial Treasurer and the Deputy Provincial Treasurer make relatively frequent visits to investors. Saskatchewan's financial information, made available semi-annually in a special publication for investors, is acknowledged to be the best provided by any province in Canada. We have tried to "tailor" Saskatchewan's securities to meet

investor needs. The Province's sinking fund policy was altered in 1952 to provide that a full 3% of the funded debt would each year be placed in the Province's sinking funds. This policy was considerably in advance of that followed by other provinces. Furthermore, the monies deposited in the sinking funds are invested in the bonds for which the sinking fund was created; this creates a demand for Saskatchewan bonds held by financial institutions and helps to assure their ready marketability. All of these policies are designed to stimulate a greater interest in Province of Saskatchewan bonds.

Securities Issued by the Government of Saskatchewan

53. The Government of Saskatchewan has issued five kinds of securities:

1. Long-term bonds - Canada pay
   - U. S. pay
   - Swiss pay
2. Mid-term bonds - Canada pay
3. Short-term, low coupon bonds - Canada pay
4. Treasury bills - Canada pay
5. Savings bonds - Canada pay

The Province has not issued corporate bonds (for example, the Saskatchewan Power Corporation), nor has it issued guaranteed corporation bonds. However, the Province has guaranteed the bonds of certain private companies - the Saskatchewan Cement Corporation and Interprovincial Steel Corporation.

54. The present pattern of Saskatchewan's outstanding debt is revealed in Table 3 of the Statistical Appendix. It will be seen that foreign pay debt constitutes approximately 40% of the total outstanding debt; that savings bonds constitute approximately 2 3/4% of the outstanding debt, and that treasury bills make up approximately 4% of the total. As far as long-term bonds are concerned, except for 1963, 1966 and 1971, the really heavy maturities do not begin until 1973, when the Province's sinking funds will be nearly sufficient to meet the maturities as they come due.

55. This discussion of the markets which the Government of Saskatchewan exploits has shown the determinants of the Government's decisions concerning the securities which it will issue. The Province has a preference for long-term debentures; it is unwilling to exploit the short-term markets unless

there is a reasonable assurance as to the ability of the market to refund the debt as it comes due; the Province is unwilling to take heavy risks in the amount of "call money" which it borrows through the sale of savings bonds; it is willing to borrow in foreign markets providing the exchange risk is adequately hedged through the interest savings and the Province's sinking fund policies.

56. Certain external factors influence the Province in these decisions too: the attitude of investors as to the kind of security in which they are particularly interested at any point in time; the apparent availability of funds for securities of different categories; the interest rates and the structure of rates with which the Province is confronted; and the attitudes of the Government of Canada and the Bank of Canada in respect of provincial borrowing behaviour.

57. In summary, it is obvious that, because we are financing long-term requirements, we have a strong preference for selling long-term securities. We are, however, prepared to issue securities having a shorter term providing there is a reasonable assurance that the markets in which these securities have been sold will be ready and able to refund them upon their maturity. Medium-term securities have been avoided, except where the maturity pattern of the Province's debt makes it possible to accommodate larger maturities of medium term. We are anxious to maintain a debt structure which minimizes fluctuations in the funds required from the consolidated fund for debt redemption, and which maximizes the maturities which can be redeemed through the use of sinking funds or through a regular refunding practice.

Selling Arrangements

58. There are two major facets to the marketing of Government of Saskatchewan bonds. The first is the timing of bond issues, and the second the underwriting arrangements.

59. The Treasury Department follows four principal steps in deciding when it should market Province of Saskatchewan debentures. First, the total year's borrowing programme is divided into the various markets which it is intended shall be exploited. The 1962 borrowing programme, for

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example, will consist of some $72 million which will be raised in the following markets:

1.	Canadian long-term bond market	$45,000,000
2.	Saskatchewan savings bonds (net)	10,000,000
3.	Money market - refunding of one year debentures	10,000,000
4.	Money market - sale of treasury bills	7,000,000
		$72,000,000

60. The next step is to divide the long-term borrowing into the number of issues it is intended shall be marketed. (It is obvious that the Saskatchewan savings bonds will be sold at a single time in the year, and that the treasury bills will be marketed continuously through the year. The one-year debentures are sold as and when good offerings are made, subject to some estimate as to the trend of short-term rates in the future.)

61. Having decided on the number of long-term debenture issues, it then is necessary to decide when these shall be marketed. Theoretically, if there were to be three issues, it would be possible to decide on one debenture issue in each of the first two quarters of the year, and one in the last quarter (leaving the months of July and August open since the markets are usually quite inactive during this period of the year). It remains necessary, however, to decide whether to market the issues toward the early part of each quarter, or towards the late part.

62. These decisions are based primarily upon a forecast of general business activity, and our estimate of the effects of changes in business activity upon financial markets. If a recession is forecast, then the Treasury attempts to sell its bond issues as late as possible in order to enjoy the benefits of the higher bond prices which may normally be expected to occur during a recession. The reverse is true if the Treasury forecasts an economic upturn. These judgments are varied, however, by some estimate as to the rapidity with which monetary policy will "tighten money" in the course of an economic upturn, or alternatively "loosen money" in the course of a downturn. Further, it is necessary to form some impression as to whether federal policy will have the effect of counteracting the "normal"

trend of interest rates in the course of a business cycle, as occurred, for example, in 1958. It is also necessary to attempt to form some impression as to "market expectations": whether these will discount, or precede, the actual economic event, or whether they will tend to "lag". In all of these decisions the advice of investment dealers and bankers is sought.

63. The Treasury's decision as to whether it should market its issues early or late in the periods which it has chosen is then subject to shorter-term market forecasting - week-to-week and day-to-day. In this area the advice of investment dealers, who are close to the market, is particularly sought and followed.

64. There are other influences on the Government's timing of bond issues - notably the likely timing of debenture issues by the Federal Government and other provincial governments. No formal arrangements exist for the co-ordination of the borrowing programmes of the various governments, though Saskatchewan makes every effort to discover the borrowing plans of other provinces before it comes to market. The use of fiscal agencies by most of the provinces, with managers from among a small group of leading investment dealers, provides an informal method of co-ordination. On the basis of information thus obtained, Saskatchewan attempts to avoid marketing debentures within a period of three or four days of other provinces. This method of co-ordination, however, is subject to error, and the Province of Saskatchewan has urged elsewhere that there should be established a "clearing house" for the exchange of information on the timing of debenture issues. Our proposal is that the Bank of Canada should serve in this capacity, and that when any province proposes to go to the market it would ask the Bank of Canada whether the planned date would conflict with the borrowing plans of any other province. Without divulging the names of other borrowers the Bank of Canada would advise the applicant province as to the immediate plans of other provinces. The same procedure would presumably be followed by the larger municipalities.

65. As to underwriting arrangements, the Province of Saskatchewan has followed three methods: from 1949 to 1961 inclusive, Saskatchewan called for tenders on debenture issues; from 1945 to 1949, and beginning

again in 1962, she used a fiscal agency;[6] and in 1960 and 1961 she sold a few debenture issues privately.

66 It is difficult to say with certainty which of these methods is preferable Calling for tenders has the advantage of being less expensive, at least in the short-run, and of making possible more rapid decisions as to when to go to market. When investment dealers are bidding competitively for debenture issues there is a tendancy for them to price the bonds "a little more fully", and to accept a smaller commission Both of these practices work to the advantage of the Province. On the other hand, it is possible that the dealers may bid too much for the bonds and then, because of a reluctance to cut price, the bonds may remain unsold for a considerable period of time. This works to the disadvantage of the Province since it leaves the impression that there are always a lot of Saskatchewan bonds in the market.

67 Second, it is argued that no investment dealer has a "continuing interest" in the bonds of the province which sells by public tender. The larger investment dealers are tied up already in fiscal agency agreements with most of the other provinces, and they tend to devote their attention to those credits whose bonds come to them regularly. Naturally there is some uncertainty as to whether a given investment house will win the bonds that are sold at tender; consequently their interest in these bonds is sporadic. It follows that the dealers are reluctant to establish a selling organization, particularly within the Province of Saskatchewan, when they are uncertain as to how many bonds they will get in the course of a year. A fiscal agency removes a considerable part of this uncertainty.

68. It is also important to pay some heed to the attitudes of the investors and the investment dealers. Currently most people in the financial world believe it is preferable for the province which is marketing a substantial amount of bonds to do so through a fiscal agency (a combined group of the major dealers). If the financial community holds this view, then the province which calls for tenders is regarded as "unorthodox". It

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6/ Tenders were called once in 1947.

again in 1952, [illegible] used a [illegible] agency [illegible] and 1961 she sell a few debentures [illegible] privately.

5. It is difficult to say with certainty which of these methods is preferable. Calling for tenders has the [illegible] of being less expensive, at least in the short-run, and of [illegible] more [illegible] decisions as to when to go to market. When investment dealers [illegible] bid competitively for debenture issues there is a tendency for [illegible] to [illegible] the bonds "a little more fully", and to accept a smaller commission. Both of these practices work to the advantage of the [illegible]. On the other hand, it is possible that the [illegible] too much [illegible] because of a reluctance to cut prices, the bonds may [illegible] hold for a considerable period of time. This [illegible] of [illegible] leaves the impression that [illegible] is [illegible]

6. [illegible] has a "continuing interest" in the bonds of the province [illegible] the larger investment dealers are [illegible] up closely with [illegible] accounts with most of the other provinces, [illegible] their attention to those [illegible] whose bonds [illegible] regularly. Naturally there is some uncertainty as to whether [illegible] with the bonds they are sold to [illegible] their [illegible] is [illegible] [illegible] [illegible] [illegible] [illegible] A [illegible]

7. [illegible] investors [illegible] the [illegible] would [illegible] substantial [illegible] group of the major [illegible] than [illegible]

has been suggested to us that unorthodoxy frequently is rewarded with an official hesitation on the part of investment committees.

69. It follows that if all provinces were selling bonds at tender, each would have the same advantage as the other, and presumably investment dealers acting competitively would be able to sell as many bonds as they are able now to sell when acting in a fiscal agency. On the other hand, if most provinces sell through fiscal agencies, it becomes extremely difficult for one or two provinces to act independently through calling for tenders - especially if that province has a big borrowing programme.

70. The private sale of debentures in Canada is rather uncommon. Saskatchewan followed this course in 1961 when it was planning to change over from the competitive tender system to the fiscal agency approach. The advantage of private issues is that the province can "tailor" the issue for the buyer or buyers that want the bonds. On the other hand, there develops some uncertainty as to the province's marketing arrangements; is it selling by tender, or is it selling the bonds privately? If there is enough uncertainty, potential buyers will ignore the public issues of bonds in order to make a private purchase. Why they would do so is obvious: it is likely that the private sale will offer some price advantage, compared with the public tender where investment dealers are apt to price the bonds"more fully".

Redemption Arrangements

71. Since most of the Province's borrowing is to finance loans to the Saskatchewan Power Corporation and Saskatchewan Government Telephones, a description of redemption arrangements must be preceded by an outline of the system of financing these two corporations. When the Province borrows funds for this purpose the Treasury makes a loan to the corporation which is identical in all respects with the loan which the Province made through a debenture issue. In other words, the interest rate is the same, the date of payment is the same, and the sinking funds requirements are the same. Thus, when the Province makes interest payments it is fully reimbursed by the corporation concerned; similarly, when the Province makes payments

has been suggested to [illegible] is rewarded with an official [illegible] on the part of [illegible] committees

69. It follows that if [illegible] at tender, [illegible] would have the same [illegible] at the other [illegible] and presumably investment dealers acting [illegible] bonds as they are able now to sell [illegible] the other hand, [illegible] provinces [illegible] extremely difficult for one or two provinces to [illegible] for tenders [illegible] agreement.

[illegible]

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The advantages [illegible] as follows: [illegible] there would be some uncertainty as to the [illegible] amount is [illegible] selling by tender, or [illegible] is enough uncertainty [illegible] bonds in order to make a [illegible] obvious [illegible] advantage, compared [illegible] the position [illegible]

71. [illegible] the [illegible] a description of [illegible] of [illegible] a [illegible] data on [illegible] same. Thus, when [illegible] makes [illegible] by the [illegible]

to the sinking fund established for the purpose of retiring the debenture issue, the corporation concerned fully reimburses the consolidated fund for these payments.

72. The redemption arrangements then are these: for each debenture issue the Province establishes a sinking fund into which is paid, annually, 3% of the face value of the issue. This sinking fund payment is fully reimbursed to the Province by the corporation concerned. Since most debentures are for twenty or twenty-five years, the result is that the sinking funds are almost adequate to meet the retirements. To the extent that the proceeds from sinking funds are not sufficient to retire the debentures issue concerned, the corporation is required to make whatever additional payment is necessary. In all cases the corporation payments to the Treasury are made from "depreciation accruals", except that where special debt retirement payments are required it may be necessary for the Treasury to advance additional sums to the corporation for this purpose.

73. Debentures which are sold to finance other projects (than loans to the Saskatchewan Power Corporation or Saskatchewan Government Telephones) are retired in the same way. A 3% sinking fund is established, and the consolidated fund of the Province makes the required payments annually. If the sinking fund is insufficient to retire the debentures when they come due, the consolidated fund will make up the balance.

74. It should be noted that the Province maintains sinking funds largely for the purpose of assuring investors that Saskatchewan bonds will be paid off when due. As far as the Treasury is concerned, it would be simpler to refund debentures when they come due than to establish and manage sinking funds (assuming an appropriate maturity structure). It is fairly obvious that if a Province sets aside revenues in a sinking fund it will be necessary to borrow in order to do the things which these revenues could otherwise have financed. It would be simpler, therefore, for the Province to refund the debentures that come due rather than to borrow annually for projects which might otherwise have been financed by the revenues which were diverted into sinking funds. However, it is recognized that to the individual holder of Saskatchewan debentures, the existence of

to the sinking fund established for the purpose of retiring the debenture issue. In the case of the [illegible] [illegible] concerned [illegible] [illegible] sinking fund [illegible] these payments.

72. The redemption arrangements [illegible] [illegible]. For each debenture issue the Province establishes a sinking fund into which it pays, annually, [illegible] of the face value of the issue. This sinking fund [illegible] [illegible] reimbursed to the Province by the corporation concerned. Since most debentures are for longer [illegible] [illegible] years, the result is that the sinking funds are almost adequate to meet the retirement of the [illegible] [illegible] proceeds from sinking funds are not sufficient to retire the debentures [illegible] issue concerned, the corporation [illegible] [illegible] [illegible] [illegible] payment is necessary [illegible] [illegible] the corporation [illegible] [illegible] any [illegible] [illegible] [illegible] from [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] payments are required [illegible] [illegible] [illegible] [illegible] [illegible] revenues additional sums to the corporation [illegible] [illegible].

73. Debentures which [illegible] [illegible] [illegible] other projects [illegible] loans

are retired in the same way [illegible] sinking fund is established, [illegible] the consolidated fund of the Province [illegible] [illegible] required payments annually. If the sinking fund is insufficient to retire the debentures when they come due, the consolidated fund will make up the balance.

74. [illegible] will be necessary [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] the Province [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] annually [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] revenues [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]

a sinking fund is almost a guarantee that the Province will not come to the investor concerned and ask that he take new Saskatchewan debentures in return for the ones which have matured.

Borrowing Problems of Saskatchewan Local Governments

75. The Government of Saskatchewan is concerned not only with its borrowing programmes but equally so with those of its local governments. About 30% of government capital expenditures in the Province are made by local governments, and many of the social capital facilities - schools and hospitals, roads and streets - are financed in good measure by them. We turn, therefore, to their borrowing problems before making our recommendations for enlarging the flow of capital to the Province and its local governments.

76. The difficulties which these bodies encounter in the capital markets can be illustrated in three ways: the lack of interest most investment dealers have shown in marketing their bonds; the higher rates of interest paid by these compared with roughly similar local government units in some other provinces; and the difficulty of marketing the bonds outside of Saskatchewan, despite the higher rates.

77. Until recently most of the debenture issues from school units, towns, and union hospital districts which were marketed by investment dealers, were handled by one or two firms in Saskatchewan and one in Toronto. Only rarely were other Toronto or Montreal dealers interested.

78. Interest rates are high: currently, for example, Saskatchewan school units, towns, or union hospital districts would pay, in eastern markets, about 6% to 6¼% for 15-year serial bonds. If rates are high, it almost certainly follows that a good many investors are reluctant to purchase the credits involved. There is a widely held impression that this is so: certainly the advice of a number of investment dealers, and the pressures upon the Provincial Government to purchase local government bonds have tended to support this view.

79. Any explanation of these difficulties is necessarily conjectural, but there are likely three factors: Saskatchewan local government units

a sinking fund is almost [illegible] the investor concerned [illegible] in return for the ones which have [illegible]

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75. The development of [illegible] or [illegible] programmes but [illegible] about 30% of government [illegible] local governments [illegible] and hospitals, [illegible] the turn [illegible] [illegible] for [illegible] the [illegible]

[illegible]

76. The [illegible] markets can be illustrated in [illegible] investment [illegible] have shown in [illegible] of interest paid by these compared with [illegible] local [illegible] units in some other provinces, and the difficulty of [illegible] outside of Saskatchewan, despite the higher rate.

77. Until recently [illegible] of the [illegible] towns, and [illegible] dealers, were [illegible] firms in [illegible] Toronto. Only rarely were [illegible]

78. [illegible] school units, towns, or [illegible] hospital district, [illegible] maturities, about 5% to 6% for [illegible] almost certainly follows that a [illegible] increase the [illegible] involved. There is [illegible] this is not [illegible] the pressure upon the provincial government [illegible] bonds have tended to support this view.

79. Any explanation of these difficulties [illegible] but there [illegible]

are not large nor are they well known outside the Province; their issues are small and therefore of minor consequence to many investment dealers; and many investors seem uninterested in Saskatchewan municipals because of the unhappy experiences of the 1930's. It is acknowledged that these problems have not been as acute during the past two or three years. More and more investment dealers are taking an interest in Saskatchewan municipals, and gradually the credits are becoming better known in financial circles - particularly union hospital districts and school units. But there is room for a great deal of improvement

80. The marketing difficulties here described cannot be said to apply to the debenture issues of cities or of city school districts. There are exceptions: the cities which defaulted during the 1930's or early 1940's are having a very difficult time in re-establishing their credit. They have tended to borrow in foreign markets, and the Province has supported their bond issues substantially.

81. It was in light of the difficulties experienced by most of our local governments in finding a market for their bonds, at a reasonable price, that the Province embarked upon a policy for purchasing their debentures. Under this policy the Government purchases up to fifty per cent of the debenture issues of the local governments which are encountering difficulty in marketing their bonds. This excludes the purchase of city debentures, except where a city has defaulted in past years, and except where we want the bonds to balance the municipal section of Government investment fund portfolios. The local governments to whom this general "debenture purchase policy" applies include school units and districts (other than city school districts), union hospital districts, rural and urban municipalities (other than cities), agricultural conservation and development districts, and rural telephone companies.

82. Under this policy, government funds are lending between two and three million dollars per year to local governments. Most loans are made through the purchase of securities, though in the early years of the Province's school units (a larger unit of local government which replaced the smaller school districts) and in the early years of the Municipal Corporation of Uranium City, direct loans were made from the consolidated fund.

are small and therefore of [illegible] to [illegible] but [illegible]; and many investors seem uninterested in [illegible] municipal [illegible] of the unhappy experience of the 1930's. It is [illegible] that [illegible] problems have not been as acute [illegible] the last [illegible] three years [illegible] and more investment dealers are taking an interest in [illegible] and gradually the credits are becoming [illegible] particularly union hospital districts [illegible] for a great deal of improvement.

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82. Under this policy, government funds [illegible] three million dollars per year [illegible] through the purchase of securities, [illegible] Province's school units (a larger unit of [illegible] the smaller school districts) and in the early [illegible] poration of Uranium City, [illegible] loans were made from the [illegible] Fund

83. We should explain that local governments choose between two methods for marketing their debentures: they may sell them themselves, locally, or they may engage an investment dealer for the purpose. If the first course is chosen the local governments are required to make every effort to sell their bonds in the local communities, and when this has been done the Province's Local Government Board recommends to the Treasury that it purchase the balance of the bonds outstanding (the Local Government Board is the Province's independent agency for the regulation of local government borrowing). Rarely does the Treasury purchase over 50 per cent of any debenture issue; the average is about 35 per cent. The bonds so purchased are then allocated by the Treasury to the various government funds or government-administered funds, in accordance with their investment policies.

84. Because of the indifferent success in getting investment dealers outside the Province to market their debentures, and because of a desire to avoid paying a selling commission, a great many Saskatchewan local governments (other than cities) have tended to sell their debentures in their own communities.

85. If, on the other hand, a local government chooses to engage an investment dealer to market its bonds, the Treasury will make purchases directly from that dealer, providing it is satisfied that a genuine effort has been made to dispose of the bonds. Two Saskatchewan investment dealers have been highly successful in marketing local government (as opposed to city) bonds, in recent years, and the Treasury has been required to buy less than 25 per cent of the issues they have handled.

86. The Province has not undertaken to guarantee municipal securities. We have refrained from doing so on several grounds. Firstly, to guarantee local government bonds would be to dilute the Province's credit, owing to the treatment by investors of provincially guaranteed bonds as provincial bonds. The result is that the costs of aggregate government borrowing in Saskatchewan - total provincial and local government borrowing - might well be higher than the current prevailing average (provincial bonds plus local government bonds without a guarantee). If this assumption is valid, it is preferable to permit separate borrowing by local governments, admittedly

[illegible] that local [illegible] two [illegible] for [illegible] their [illegible] locally, or [illegible] first course is chosen the local [illegible] every effort to [illegible] their [illegible] been done the [illegible] Government [illegible] that [illegible] the [illegible] would [illegible] the Province [illegible] local government [illegible] 50 per [illegible] of any [illegible] The [illegible] government funds [illegible] their [illegible] policies.

34. [illegible] in different [illegible] outside the Province to [illegible] to avoid [illegible] a [illegible] governments [illegible] than [illegible] their [illegible]

35. [illegible]

directly [illegible] providing [illegible] has been [illegible] have been highly successful [illegible] local [illegible] city [illegible] less than [illegible]

36. [illegible] we have [illegible] local government [illegible] the treatment [illegible] [illegible]. The result [illegible] Saskatchewan [illegible] local [illegible] higher [illegible] the current [illegible] government [illegible] preferable [illegible]

at a higher rate than the Province would pay, and use provincial grants as a device for meeting these higher costs. The alternative would be to reduce the cost of local government borrowing, by a provincial guarantee, increase the provincial costs of borrowing as a result, and then reduce the Province's grants to the local governments.

87. There is a second reason that we have not guaranteed the bonds of our local governments. Traditionally little government control over the extent of local government borrowing has been exercised by the provinces which do guarantee local government bonds.[7/] But a provincial guarantee is simply a form of grant to local governments, and the least prudent municipality is able to extract the largest grant by the simple device of a larger borrowing programme. We believe, therefore, that provincial guarantees should carry with them additional controls over the amounts which each local government may borrow in any year. This is a degree of control which we are reluctant to impose.

Provincial and Local Government Borrowing Problems:
Some Suggested Improvements

88. We are confident that the Commission will consider thoughtfully these problems of junior governments as borrowers. For our part, a number of thoughts have occurred to us as to how these difficulties might be overcome. Our suggestions fall into five categories: possible improvements in statistical data concerning junior governments and the holdings of their bond by financial institutions; increased specialization by investment dealers in the marketing of local government bonds; alternative methods for increasing the allocation of funds by financial institutions to junior governments; the desirability of meeting a larger proportion of junior government capital requirements from Government of Canada sources rather than from the capital markets; and the possibility of federal subsidization of the borrowing costs of junior government.

7/ Here we are referring to government control as opposed to that exercised by local government boards.

at a minimum [illegible]

is a device for meeting these higher [illegible]

relieve the cost of local government [illegible]

increase the provincial costs of operation [illegible]

Province's grants to [illegible] local government.

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[1] [illegible] to [illegible] by local government [illegible]

Improved Statistics

89. Our first suggestion is that more statistical data should be made available concerning the marketing of provincial and local government bonds, and the financial position of these governments.

1. The provinces and local governments would find it extremely useful if all financial institutions were required to publish their holdings of securities, and if the names of the purchasers of new securities issues were made available to them. This information would make it possible for the provinces who were relatively unsuccessful in having their bonds placed with particular financial institutions to approach these institutions to enquire as to the steps which should be taken to improve their credit rating.

2. We would suggest that provincial and municipal statistics should be improved. The Dominion Bureau of Statistics is doing an excellent job, but inter-provincial and inter-municipal comparisons continue to be difficult. We believe, for example, that provincial surpluses or deficits should be published, as well as the revenues and expenditures (a simple matter of subtraction is involved). We believe that provincial net debt figures should be published, using as the basis for doing so the Federal Government's form of accounts. We believe that the form of accounts used by D.B.S. in their publications of municipal financial statistics could be improved.

3. We believe that statistical data would be supplemented in a useful way if more financial institutions were to send representatives to visit the borrowers - the provinces and municipalities. It has been our experience that when they do they develop a much keener insight into the economic prospects and the financial management of the jurisdictions concerned.

Our first suggestion is that more statistical [illegible] be made available concerning the market [illegible] of provincial and local government bonds, and the financial position of these governments.

1. The provinces and local governments [illegible] extremely useful if [illegible] material that [illegible] were [illegible] publish their holdings of securities, [illegible] the [illegible] ... [illegible] of new securities [illegible] [illegible] available [illegible] This information [illegible] the [illegible] [illegible] ... [illegible] [illegible] with particular [illegible] these institutions to [illegible] [illegible]

2. We would suggest that [illegible] would be improved. The [illegible] Bureau [illegible] has done an excellent job, but [illegible] municipal comparisons continue to [illegible] we find that, for example, that provincial surpluses or deficits [illegible] published [illegible] the [illegible] simple matter of subtraction is [illegible] provinces not [illegible] should [illegible] the [illegible] the Federal Government's [illegible] accounts. We believe that the form of [illegible] [illegible] their publications [illegible] could be improved.

3. We believe that statistical [illegible] would be [illegible] useful [illegible] if more financial institutions [illegible] representatives to visit the borrowers [illegible] municipalities. [illegible] as they develop [illegible] prospects and the [illegible] management [illegible] concerned.

Specialization in Investment Dealer Industry

90. Secondly, we suggest that there may be room for changes in the organization of the investment dealer industry. There are some firms which specialize in handling municipal bonds, but if our experience is any guide, there is room for more. The larger firms tend to handle larger bond issues; frequently it is uneconomic for them to underwrite smaller issues, particularly when there is an abundance of other business. Between these large firms and the very small "shops" which promote the stock issues of small risk enterprises, there seems to us to be a substantial gap.

Allocation of Funds to Junior Governments

91. Thirdly, we suggest that consideration should be given to alternative methods for increasing the allocation of funds to junior governments by financial institutions. One way of achieving this, theoretically, would be for the governments concerned to pay higher rates of interest. But this alone would not be sufficient, we think, owing to the conventions of portfolio management. What is more, high interest rates may well defer many social capital projects which would be of economic advantage to the nation.

92. One way of bringing about this shift would be an extension of Federal regulation of portfolio management requiring increased investment in provincial and local government bonds. An alternative would be to search out a system of tax incentives which would encourage financial institutions to invest a larger percentage of their assets in provincial and municipal bonds. We admit that this course theoretically could reduce the proportion of capital available for private industry, but we would not concede that this implies a lower rate of economic growth. We have already argued our premises: first, that much of the nation's social capital contributes a very great deal to economic growth through a better trained and healthier labour force, and second, that social capital is necessary to achieve a happier balance between the nation's social and economic development.

93. The Government of Canada can also assist the provinces in marketing their debentures by continuing to leave a large part of the long-term market to the provinces.

[illegible] in Investment Dealer Industry

90. [illegible]ly, we suggest that there may be room for changes in the organization of the investment dealer industry. There are [illegible] firms which specialize in handling municipal bonds, but in our experience [illegible] there is room for more. The larger firms tend to handle larger bond issues; frequently it is uneconomic for them to underwrite smaller issues, particularly when there is an abundance of other business. Between these larger firms and the very small "shops" which [illegible] private enterprises, there seems to us to be a substantial gap.

Allocation of [illegible] to [illegible] governments

91. Thirdly, we suggest that consideration [illegible] alternative methods for [illegible] by financial institutions. One [illegible] be for the [illegible] alone would not be sufficient, we think, [illegible] [illegible] public enterprises, [illegible] social capital projects [illegible] would be of [illegible]

92. [illegible] thinking about [illegible] Federal regulation [illegible] in provincial and local government [illegible] out a system of [illegible] to invest a larger percentage of their assets in [illegible] bonds. We admit that this course, though [illegible] of capital available for private [illegible] this implies [illegible] of economic growth [illegible] promises [illegible] very great deal to economic growth [illegible] labour force, and second, that social capital [illegible] proper balance between the [illegible]

93. The development of [illegible]

The Government of Canada as a Source of Funds

94. Another way of increasing the amount of capital being made available to provinces and local governments would be for the Government of Canada to increase the amount of capital which it makes available for social capital and economic development projects. This is our fourth suggestion: that the Federal Government should make available grants and, where appropriate, loans to provinces and local governments for these purposes. This, we point out, would not constitute a radical departure in Federal policy: the Government of Canada now makes capital available for hospitals (hospital grants), university buildings (Canada Council grants), technical and vocational schools (Technical and Vocational Training Agreement), highways (Trans-Canada Highway and roads to resources), housing (loans for senior citizens' homes), sewer projects (N.H.A. loans). All of these diminish the need for provinces and their local governments to borrow in the capital markets.

95. We have three proposals:

1. Saskatchewan has proposed, at Federal-Provincial conferences, that the area of provincial and municipal financing which is removed from the capital markets should be enlarged. Over time, chronic deficiencies in social capital have manifested themselves. A current and outstanding example is the need for schools and university buildings. As these deficiencies become apparent the Federal Government should recognize that the national interest is involved, and make capital available to the provinces and through them to the municipalities. There is an important reason for saying this, one which we have already argued. Many social capital projects are not proceeded with because the governments responsible are unwilling to assume debt charges which will not substantially be met from increased revenues. But the economic benefits to the nation as a whole may be more than sufficient to justify the projects. To finance the grants or loans involved the Government would increase taxes (the most straightforward way of removing financial requirements from capital markets), or borrow (the market would buy

91 Another way of increasing the amount of capital [illegible] able to provinces and local governments would be for the Government of Canada to increase the amount of capital which it makes available for social capital and economic development projects. This is one [illegible] that the Federal Government should make available grants and [illegible] loans to provinces and local governments for these purposes. This, we [illegible] out, would not constitute a radical departure [illegible] the [illegible] ment of Canada [illegible] makes capital available for [illegible] (the [illegible]), university buildings ([illegible]), technical and vocational schools (Technical and Vocational Training Agreement, [illegible]), highway and roads [illegible] (loans for [illegible]) sewer projects (C.M.H.C. [illegible]). All of these [illegible] and their local governments [illegible] capital markets.

93 We have three proposals:

1. Saskatchewan has proposed, [illegible] that the [illegible] of provincial and municipal [illegible] demand upon the capital markets should be [illegible]. [illegible] that, [illegible] deficiencies in social capital have [illegible] themselves. A current and outstanding [illegible] for schools and university buildings [illegible] become apparent the Federal Government should [illegible] that the national interest is involved, and make [illegible] available to the provinces and [illegible] ties. There is an important reason for [illegible] this we have already argued. [illegible] are not [illegible] because the [illegible] are unwilling to assume debt charges which will [illegible] cially be met [illegible] revenues [illegible] sensitivity [illegible] to justify the projects. [illegible] the Government would [illegible] straight-forward way of removing [illegible] from capital markets), or borrow (the [illegible]

Canada bonds instead of provincial or municipal bonds - with or without an increase in the money supply). The case for federal rather than provincial or municipal taxation is twofold. The diversity of tax fields available to the national government makes possible a tax structure which has a more desirable and determinate incidence. Also, the exploitation of the nation's tax potential removes the regional tax variations which result from provincial exploitation of tax bases that vary from region to region. The case for Federal borrowing is also twofold. The national government would borrow at a single rate for these social capital projects, whereas provincial rates would vary (a variation which is difficult to justify in the case of many social capital needs). Also, the cost of borrowing would be lower because of the superior credit rating of the Federal Government.

2. Saskatchewan has further proposed that special, or additional, social capital grants or loans should be made by the Government of Canada during recessions. A depressed economy reflects an excess of productive capacity in relation to demand. It is usually futile, therefore, to attempt to combat a recession by trying to stimulate investment in more plant capacity when it is already excessive. What must be done is to find the sectors of the economy where capital stock is deficient, and induce investment there. An area of the economy where capital stock has been chronically deficient is the social sector. This being so, the provinces and local governments should be encouraged to expend their social capital expenditures during a recession, either by Federal Government grants, or loans, or both. Without assistance, there is small reason for these governments to deficit finance to stimulate the economy: for them the "leakage" of the economic benefits is too

Canada bonds instead of [illegible] bonds — with or without an increase in [illegible] supply). [illegible] for federal rather than provincial or municipal [illegible] is twofold. The diversity of tax fields [illegible] to the national government makes possible [illegible] structure [illegible] a more desirable and [illegible] exploit each of the nation's tax [illegible] region [illegible] which [illegible] tax plicitation of tax bases that vary from [illegible] the case for federal borrowing [illegible] government could borrow at a single rate [illegible] capital projects, whereas provincial [illegible] variation which is difficult to justify [illegible] many social capital needs. Also [illegible] would be lower because of [illegible]

2. Saskatchewan has [illegible] proposal that [illegible] all social capital grants [illegible] should be made by the Government of Canada during recessions. [illegible] economy reaches [illegible] of [illegible] lation to demand [illegible] it is usually [illegible] attempt to correct [illegible] one. In most [illegible] That [illegible] where capital stock is [illegible] there. An area of the economy [illegible] chronically deficient is the social [illegible] the provinces and local governments should [illegible] to expand their social capital expenditures [illegible] soon, either by Federal Government [illegible] both. [illegible] governments to [illegible] for [illegible]

great. The case for these "cyclical" grants or loans is separate from the case which has just been made; these would be cut as economic recovery proceeded, and the provinces would find it necessary either to postpone new undertakings, in order to finance those which had been started under the cyclical programme, or to go to the capital markets for more money.

3. Another approach would be to remove from the capital markets the financing of a part of provincial expenditures on long-run economic and resource development. The case for this approach is that it would stimulate expenditures on economic development projects which might, from a purely provincial point of view, appear uneconomic (the resulting income flows being felt in larger measure in other regions). These grants and loans could also be varied cyclically. Which of these two areas of provincial capital needs - social capital or resource development - should be given more prominence will depend upon the rate of economic growth, the state of the nation's social capital, and other factors.

Federal Subsidization of Borrowing Costs

96. A more conventional suggestion for helping the provinces and municipalities to meet their capital needs is the proposal that the Federal Government should subsidize their borrowing costs. Three alternatives are possible: a direct subsidy of interest rates; making provincial and local government bonds "tax exempt" under the Canadian Income Tax Act; or a Federal guarantee of the bonds of junior governments. In each case the effect is substantially the same: provincial and local government bonds are made more attractive to the investor, with the Federal Government bearing the cost of accomplishing this.

* * * *

97. Each of the possibilities here suggested has its own merits and our Government would not reject any of them. We would, however, express a strong interest in the fourth group of proposals - those which involve the Government of Canada supplying a larger percentage of provincial and local government capital requirements.

III. PRIVATE AND CO-OPERATIVE BORROWERS IN THE SASKATCHEWAN ECONOMY

98. The second major topic with which the Government of Saskatchewan would like to deal concerns another group of Saskatchewan borrowers - private firms, co-operatives, and farmers. Our interest in doing so is unambiguous: industrial growth, whether privately or co-operatively owned, and the continuing rationalization of the agricultural industry are essential to the growth of the Province.

Private Borrowers

99. During the 1930's and the war, industrial development in Saskatchewan was not extensive. The non-agricultural labour force, for example, increased by only 12,000 persons from 1931 to 1946 - from 134,000 to 146,000.[8/] It was around 1950 that production from oil and gas fields, from mines and construction, and from the growth of the electric power industry started an industrial "take-off" in this Province.

100. We in the Government are keenly aware of the importance of economic growth, both to the private and to the public sectors of the economy, and we have made economic and resource development one of our major concerns. We have been encouraged that several elements have emerged to facilitate this development. Resource-based industries have been established as our dormant resources were discovered. There has developed to the west of us a market which balances the market on our eastern flank, and these in combination with local markets have combined to encourage small secondary industries to establish here. The development of "regional industries" has awakened an interest in new possibilities, aided by the freight rate structure which unhappily works, at the same time, to the disadvantage of the resource-based industries. Further, western businessmen are gradually overcoming the "depression outlook" which was the inevitable consequence of the 1930's.

101. But the growth could be speeded up, and, we are told by our friends in private business, it has been hampered by the difficulty of

8/ Saskatchewan Economic Review, No. 15, March, 1961, Table 5.

The second major topic with which the Government of Saskatchewan would like to deal concerns another group of Saskatchewan borrowers - private firms, co-operatives, and farmers. Our interest in [illegible] is unambiguous: industrial growth, whether privately or co-operatively owned, and the continuing rationalization of the agricultural industry are essential to the growth of this Province.

99. During the 1950's and the [illegible], targets of development in Saskatchewan was [illegible] [illegible] labour force, for example, increased by only 12 [illegible] per cent from 1951 to 19[illegible] - from [illegible] to 1[illegible],[illegible]. It [illegible] [illegible] [illegible] [illegible] from [illegible] construction, and [illegible] [illegible] industry started on [illegible] [illegible] in the Province.

100. We in the Government are [illegible] of [illegible] economic growth, both in the private and the public sectors of the economy, and we have [illegible] economic and [illegible] development [illegible] [illegible] We have been [illegible] that [illegible] have [illegible] to [illegible] this development. [illegible] have been [illegible] [illegible] resources [illegible]. There [illegible] a [illegible] which [illegible] our existing [illegible] combination with local [illegible] have [illegible] to [illegible] industries to establish here. [illegible] of "[illegible]" [illegible] has awakened an interest in new possibilities [illegible] structure which [illegible], at the same time, [illegible] the [illegible] [illegible] industrial [illegible] overcome the "depression [illegible]" which was [illegible] of the 1930's.

101. But the growth [illegible], we [illegible] firms in private business, it [illegible] difficulty of

obtaining capital for industrial development in Saskatchewan. We are speaking here not so much for the resource-based industries, for a great many of them are national and international enterprises, but more for the small and medium-sized seconday industries.

102. Small firms anywhere in Canada encounter serious difficulties in obtaining fixed capital. The chartered banks are not a source of such capital, and the capital markets are not geared for small industry. Large investment firms are frank in acknowledging that it wouldn't pay them, nor would it pay the fledgling industry, to try to market very small stock or debenture issues. There is always the small "stock operators", but these are often of doubtful reputation. Between these two extremes there exists a virtual vacuum.

103. Equally serious, we are told - we do not speak from first hand experience - is the fact that the financial community is indifferent, even skeptical about industrial development on the prairies. A cement company, for example, which has been almost a startling success, was unable to engage any major investment dealer to handle its securities. The same was true of a steel plant, which now gives every sign of being successful. In both cases the Government came to the assistance of the companies and guaranteed their bonds. Even so no large investment firm was willing to handle these securities.

104. Investment dealers must, we think, reflect the attitudes of investors. It is not surprising that investors think of industry being "natural" in central Canada; the external economies of locating there are clear. But it does not follow that there are no economies of plant location in Saskatchewan. It has been suggested to us that herein lies the difficulty: financial institutions are less familiar with the economics of regional industries than they are with the economics of larger industries located in Canada's industrial centre.

105. Small businesses would not be so disturbed about the difficulty of selling securities to financial institutions if there were a well-developed "retail market", particularly for shares. But this seems not to be the case, certainly not in Saskatchewan. The individual investor is

obtaining capital for industrial development in Saskatchewan [illegible]

many of them are national and international enterprises, but not for the small and medium-sized secondary industries.

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103. [illegible] we are told [illegible] experience [illegible] is that [illegible] even substantial [illegible] industrial development [illegible] company, for example, which had been almost a [illegible] to engage any major investment dealer to handle its securities. [illegible] was true of a steel plant which [illegible] In both cases the Government came to the assistance of the company and guaranteed their bonds [illegible] even so [illegible]

104. Investment [illegible] investors. It is not surprising [illegible] "natural" [illegible] clear [illegible] but it does [illegible] they are no [illegible] tion in Saskatchewan. It [illegible] suggested to us that [illegible] difficulty [illegible] of regional industries [illegible] tries located in Canada's industrial centres.

[illegible]

of selling securities [illegible] developed [illegible] the case, certainly not in Saskatchewan [illegible]

reputed to be interested in only two kinds of securities: the safe and liquid investment, such as government savings bonds, or highly speculative stocks. We would guess that this is not the case; the problem rather is that members of the investment dealer fraternity are not geared for the sale of the stocks of small companies where a fair bit of risk may be involved. Without sufficient risk capital the fledgling firm must, if it is to finance its fixed capital needs, incur heavier mortgage or debenture indebtedness than may be warranted.

106. These difficulties have been aggravated in periods of monetary restraint. It has repeatedly been alleged, not alone by Saskatchewan firms, that when the chartered banks are forced to restrict credit they are inclined to act first with respect to smaller businesses and what might be called poorer credit risks. In a region where small industry predominates such a practice affects not only individual industries but the region as a whole.

107. The availability of credit from governments has compensated, in part, for these shortcomings of the capital markets. In 1947 our Government established an Industrial Development Fund, which in the past five years has lent $4,929,000 to 48 companies. The loans are modest: they average about $86,500. For larger enterprises the Government has been prepared to lend its credit by guaranteeing the debentures of firms whose location in Saskatchewan would constitute a major contribution to industrial development. This has been done in two cases: we guaranteed a $5,500,000 bond issue of the cement plant and a $10,000,000 issue of the steel plant.

108. The Industrial Development Bank has also assisted Saskatchewan industries, particularly since 1959 when a branch office was established in this Province. Before that date all applications for loans were processed in Winnipeg, and it is probably no coincidence that until 1959 loans to Saskatchewan enterprises lagged behind those in other provinces.[9/]

9/ The following table indicates that the number of loans to Saskatchewan firms relative to total loans by the Industrial Development Bank has increased since 1959:

Year ending Sept.30:	1944 to 1955	1956	1957	1958	1959	1960	1961
% of total I.D.B. loans made to Sask. firms	2.9	0.3	1.7	1.9	3.2	3.8	4.7

Source: Industrial Development Bank, Annual Report, various years.

stocks. He would guess that this is [illegible] that members of the investment dealer fraternity [illegible] for the sale of the stocks of small companies where [illegible] risk may be involved. Without sufficient risk capital [illegible] if it is to finance its fixed capital needs, [illegible] indebtedness than may be warranted.

[illegible] that when the [illegible] banks [illegible] are inclined to [illegible] first [illegible] might be called [illegible] credit [illegible] predominates such a practice [illegible] the region as a whole.

[illegible] availability of credit from [illegible]

[illegible] years has lent $6,975,000 to [illegible] average about $30,000. [illegible] prepared to lend [illegible]

[illegible] trial development. This has been [illegible] $5,500,000 bond issue on the cement plant [illegible]

The Industrial Development [illegible]

[illegible] in this Province. Before this date all [illegible] processed in [illegible] loans to Saskatchewan [illegible]

9/ The following table [illegible] firms relative to total loans [illegible] increased since 1959:

Year ending Sept. 30	[illegible]
% of total I. D. B. loans made to Sask. firms	[illegible]

Source: Industrial Development Bank, [illegible]

109. We suggest that these efforts of the two levels of government, while extremely useful, have not been enough. A number of possibilities present themselves. Firstly in the private sector it would be helpful if there were to be developed specialized investment dealer firms, members of the Investment Dealers Association, which would fill the gap between the larger houses and the stock salesmen. In addition it might be necessary, certainly desirable, to have established investment corporations which would buy the securities of smaller industries and obtain the capital for doing so by the sale of the securities of the investment corporation itself. Government participation, involving both levels of government, might well be necessary.

110. In the public sector the Government of Canada might consider going into partnership with any province which has an industrial development fund, and establish a federal-provincial industrial development bank, in place of the two bodies which now exist. Such a bank would be jointly managed, and should be in a position to make a larger percentage of its loans through the purchase of stock (as opposed to bonds). Further, the Federal Government might usefully consider making larger capital contributions to the regions most in need of industrial development, with lower interest rates being charged in these regions.

111. Whether a federal-provincial industrial development bank were established or a private or quasi-public investment corporation, we believe it to be important that greater emphasis should be placed on the provision of equity capital to small businesses. Were this to be done, the fledgling industry would be saddled with fewer fixed interest obligations. What is more the bank or investment corporation could market the shares it owned once the industries concerned had proven to be sound. The risk to the individual investor would be reduced, and he would become a more active participant in financing industrial development.

112. We need scarcely add that the Government of Saskatchewan favours tax incentives to industries locating in regions where industrial development is slower than in the rest of Canada. These would not simply be subsidies to the areas concerned. Once an industrial centre has been

109. [illegible] that those [illegible],
while extremely [illegible] not [illegible] little
present [illegible] First [illegible] the [illegible] helpful
if there were to be [illegible] specialized [illegible] members
of the Investment [illegible] between
the larger houses and the [illegible] necessary
certainly desirable [illegible] which
could buy the [illegible] the [illegible]
for [illegible] the [illegible]
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In place of [illegible]
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loans through [illegible] the
Federal Government [illegible]
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The [illegible] individual [illegible]
[illegible]

112. [illegible]
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[illegible]
be [illegible]

established there are unquestionably external economies which attract still other industries - a trained labour force, specialized industries for doing subcontract work, and the rest. The problem is to get the development started in the first place, as Canadians should well know from their economic history. The benefit to the nation is obvious: a developing region requires smaller equalization payments or subsidies - it begins to stand on its own economic feet and to contribute to the growth of the nation.

Co-operatives as Borrowers

113. The growth of private industry in Saskatchewan has been complemented by the development of a large number of co-operatives. Some of them are quite large enterprises: the Saskatchewan Wheat Pool with assets of $146,818,000, Federated Co-operatives Limited, a wholesaling and manufacturing co-operative, with assets of $35,303,000, and Saskatchewan Co-operative Creameries Limited with assets of $7,628,000. But the majority are smaller enterprises: marketing associations (25 of them with average net fixed assets of $80,000), consumer associations (349 of them with average net fixed assets of $42,600), service associations (543 of them with average net fixed assets of $4,900), and production associations (311 of them with average net fixed assets of $5,700).

114. Saskatchewan co-operatives do not usually attempt to finance their fixed capital needs by borrowing in the capital markets. Instead they rely upon the savings of their members and upon credit union resources. The typical co-operative obtains its capital by selling shares to members and, where that is not sufficient, by borrowing from its membership. The rapidly expanding co-operative may in addition sell securities to its membership, and to the public at large (though the latter sales are not substantial).

115. The second source of capital is Saskatchewan's 280 credit unions, which have assets totalling $112,398,000. The credit unions may purchase directly the securities (mortgages) which are issued by co-operatives, but in addition, and more commonly, they may lend part of their

assets to the Saskatchewan Co-operative Credit Society. This organization, a central credit union for credit unions and co-operatives, borrows from credit unions and co-operatives which have surplus savings and lends to co-operatives and credit unions which are in need of capital. We have seen, in Saskatchewan, in other words, the development of a small specialized "co-operative capital market", which meets the working capital requirements of co-operative enterprises and some of their fixed capital needs as well.

116. These facilities are not sufficient, however, for very large co-operatives. The Saskatchewan Wheat Pool, for example, satisfies its working capital requirements through chartered bank facilities and through the sale of money market securities. Fixed capital requirements have been obtained from members savings, except that governments have come to the assistance of co-operatives when their initial, or larger, capital needs could not be satisfied in the conventional way. This has been the pattern of co-operative financing in Saskatchewan: membership savings plus government aid where large co-operatives require "take-off" assistance. Continuing government assistance, we must add, has not been sought by co-operatives: they are anxious to proceed, as they put it, on a "self-help basis".

117. The Commission may be interested in the form which Government of Saskatchewan assistance has taken. In 1931 the Province issued twenty year debentures amounting to $13,752,000 to pay off loans made by banks at a time when the chartered banks were unwilling to renew loans already made to meet the Saskatchewan Wheat Pool's working capital requirements. This debenture issue was paid off in 1951. Again in 1944 the Government of Saskatchewan, in company with Alberta and Manitoba, made loans to Canadian Co-operative Implements Limited to assist them in purchasing a farm machinery plant in Winnipeg. The amount involved was $250,000 and each province guaranteed one third of the amount. This liability will be extinguished in 1964. In 1954 the Government guaranteed a bank loan of $3,000,000 made by a chartered bank to Consumers' Co-operative Refineries Limited for the purpose of financing an extension to its oil refinery in Regina. This was paid off in 1956. Finally, in 1947 the Province en-

assets to the Saskatchewan Co-operative Credit Society. This organization, a central credit union for credit unions and co-operatives, borrows from credit unions and co-operatives which have [illegible] savings and lends to co-operatives and credit unions which are in need of capital. [illegible] seen, in Saskatchewan, in other words, the development of a [illegible] co-operative capital market, which [illegible] the [illegible] and [illegible] ments of co-operative [illegible] and [illegible] central [illegible]

110. These facilities are not [illegible], [illegible] co-operatives. The Saskatchewan [illegible] for example, [illegible]

the sale of [illegible] securities. [illegible] capital [illegible] obtained from [illegible] sources, except that government [illegible] assistance to co-operatives [illegible] could not be satisfied in the conventional way. [illegible] or co-operative [illegible] in Saskatchewan; [illegible] savings [illegible] ment and where large co-operatives [illegible] government assistance, we must [illegible] they are anxious to [illegible] help [illegible].

111. The Commission [illegible] of Saskatchewan [illegible] has taken [illegible] 19[illegible] year [illegible] to [illegible] to pay [illegible] time when the chartered banks were [illegible] to meet the Saskatchewan [illegible] debenture issue was paid off in 1951 [illegible] Saskatchewan, in company with [illegible] co-operative [illegible] Limited to assist the [illegible] refinery plant in Winnipeg. [illegible] province [illegible] in 1954. [illegible] government [illegible] $3,000,000 made by a chartered bank to [illegible] Limited for the purpose of financing an extension to [illegible] This was paid off in 1956. [illegible]

acted a Co-operative Guarantee Act, under which the Government guarantees certain Co-operative Credit Society loans to co-operative organizations. Under this Act 91 loans have been guaranteed, totalling $1,519,000. In addition to this assistance the Government makes loans to the Co-operative Credit Society, which relends the money to co-operatives and credit unions in need of capital. These are "call loans" made from the Province's consolidated fund as and when it has surplus cash. There is a maximum of $3,000,000 on the loans which may be outstanding at any time.

118. Canadian capital markets have not been tested by Saskatchewan co-operatives. However, as they expand and as their capital requirements increase they may well find it necessary to do so (by the sale of debentures). There exists, however, a general impression that co-operatives would find it very difficult indeed to satisfy their capital needs in this way, owing to the attitudes of many investors toward this form of industrial organization. If this impression is valid, co-operatives will have to turn instead to governments for assistance.

119. Two forms of assistance are possible: government guarantees of bank loans and direct loans. Of the first we have already given some examples. As to the second, we would suggest that the Federal Government and perhaps the provinces should make capital available to the Canadian Co-operative Credit Society, to assist it in making loans to its member organizations. This society was formed for this purpose by four provincial co-operative credit societies and the following organizations: Federated Co-operatives Limited, the Saskatchewan Wheat Pool, Canadian Co-operative Implements Limited, the Co-operative Life Insurance Company and the Co-operative Fire and Casualty Company Limited. In its initial stages the Canadian Co-operative Credit Society may well require more capital than its members can provide, and we believe that it would be appropriate for governments to assist this enterprise by the provision of loan capital.

Farm Borrowers

120. The credit limitations faced by Saskatchewan farmers present a unique set of problems in financing economic activity in the province.

Under this Act 91 loans have been granted [illegible] totalling $1,319,401. In addition to this assistance the Government [illegible] the Co-operative Credit Society, which enables the [illegible] co-operatives and credit unions in need of capital. [illegible] from the Government's consolidated fund is not when it has surplus cash. There is a maximum of $3,000,000 on the loans which may be outstanding at any time.

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20. The credit institutions [illegible] by Saskatchewan [illegible] set of problems [illegible] economic activity in the [illegible]

These problems stem from the basic conflict between the nature of the economic activity of farmers and their requirements on the one hand and the established facilities for, and practices of, providing credit on the other hand.

121. A number of major features characterize the contemporary agricultural industry in Saskatchewan. Agricultural income is still very unstable and fluctuates considerably from year to year. Between one half and two-thirds of the ninety-odd thousand farm units are still too small to permit economic operations and should be enlarged. Technological change and the requirements of sound farm management have made farming a complex business. The industry is highly dependent on both demand and supply conditions that exist beyond the borders of the province and require rapid and constant adjustment to changes in these conditions. And lastly, probably more than any other industry agriculture finds itself, from time to time, in special emergency situations that result from natural disasters and other hazards. All of these characteristics impose their own particular requirements on the credit arrangements that should be available to farmers but which to a large extent are not.

122. The credit requirements of farmers may be grouped into three general classes: long-term credit for farm enlargement and transfer; short-term and intermediate-term credit for working capital purposes; and emergency credit needs. We will comment upon each of these in order to present a clearer picture of the farm credit problem.

Long-term Credit Requirements

123. In Saskatchewan the major sources of long-term credit are the Farm Credit Corporation of Canada, the Co-operative Trust Company of Saskatchewan and private individuals. The F.C.C. provides, under Part II of their Act, credit at the rate of 5 per cent up to a maximum of $20,000 with a repayment period of up to 30 years. Under Part III of the Act maximum supervised loans of $27,500 are possible. The Co-operative Trust Company can make loans of up to $25,000 for 30 years. The interest rate on these loans (which include a life insurance feature) is 6.5 per cent. The Government of Saskatchewan assists the Trust Company in this

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The [illegible]

programme by guaranteeing the "farm credit" securities which it sells to obtain the necessary capital, and it purchases the securities in an amount equal to the total public sales.

124. In 1960, funds totalling about $50 million were available to Saskatchewan farmers for the transfer of farm units and the expansion of existing units. This represents only a small part of the $200 million estimated by Saskatchewan's Royal Commission on Agriculture and Rural Life to be necessary to make even conservative levels of adjustment in the industry as a whole. Of this $50 million the F.C.C. provided about $16.5 million, the Co-operative Trust about $1.5 million and the balance of approximately $32 million was put up by individuals or found from other sources. This heavy dependence on individual sources and the inadequate amounts of credit available have had some unfortunate consequences. It has meant, for example, that those parcels which were sold for cash were frequently added to farms that were already adequate in size, since it is only the successful large scale operators who are able to pay cash. Further, where adequate sources of credit are not available and no purchase arrangements can be made with persons leaving the industry, farms are rented and become tenant operated, an equally unsatisfactory development. The need for greater amounts of long-term credit, then, is one of the major needs of Saskatchewan's agricultural industry.

125. Related to limited quantity of credit available is the security that is required. In making loans, the lenders tend to place too much emphasis on collateral security and not enough on the character of the borrower and the supervision of the loan. It is significant that only three per cent of the F.C.C. loans made in 1960 were "supervised loans" under Part III of the Corporation's legislation. The use of this approach has not been exploited nearly enough. When it is recognized that minimum adequate farm units now require from $35,000 to $50,000 capital investment it can be seen that the only conditions under which smaller farmers can hope to acquire such units would be if the security requirements were reduced and more adequate supervision of loans were substituted. We would suggest that greater use of supervision is warranted, in any event,

by the complexity of the operation of farms of this scale and by the flexibility needed to make necessary adjustments in land use and farm organization

126. A third difficulty lies in the repayment terms of these long-term loans: for the most part fixed annual repayment schedules are established. In the case of F.C.C. loans, federal legislation provides for crop share payments but this provision does not appear to have been adequately developed. In view of our heavy dependence on grain crops and of the variability of income from this source, such provisions do not correspond to the reality of the situation in which farmers find themselves. In periods of crop failure gross cash income even from a two-section grain-livestock farm may not be sufficient to cover cash operating costs and would certainly not permit the repayment of a loan. What is needed is more extensive use of the crop share plan, and, in other cases, flexible repayment terms which would provide for prepayment in good years and the deferment of payments in bad.

Short and Intermediate Credit

127. The major sources for short and intermediate-term credit are the chartered banks who provide both regular and Farm Improvement Loans Act loans, the credit unions, merchants and implement dealers, and individuals.

128. One of the more serious inadequacies of existing arrangements is the difficulty farmers encounter in obtaining credit for developmental purposes (for example, the establishment of basic livestock herds) and, as in the case of longer-term credit, the unsuitability of the repayment terms involved. At the present time fluctuations in income are accommodated by lenders by extending loan schedules. To many farmers the accumulation of unpaid interest and principal is a worrisome burden, one which could to some extent be avoided by the adoption of new alternatives to the traditional fixed repayment term.

129. Secondly, no provision appears to be made for deferring payments in the initial years of a new project, when income flows have not yet been fully established and are therefore inadequate to repay the loan. The result of present practices has been to limit and discourage the establish-

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ment of much needed and potentially profitable enterprises. This is the primary explanation of why, in 1960, only five per cent of all credit extended under the F.I.L.A. in Saskatchewan was for the purchase of livestock. One example of this kind of difficulty is noteworthy. There are many areas in Saskatchewan where small farmers have access to community pasture facilities and native forage supplies but do not have access to sufficient credit to start a basic herd. Since these farmers lack the collateral security necessary to borrow from banks or credit unions, it would be helpful if lenders were able to act on the basis of their knowledge of the character of the farmer, and were to rely more upon active supervision of the loan. (One interesting aspect of this problem results from the frequent transferring of bank managers. Often when a manager moves he in effect takes the farmers credit rating with him.)

130. Another important deficiency in this area is the low maximum loan limit of $7,500 under the F.I.L.A. for farm operation and working capital purposes (including machinery and livestock). On a minimum economic farm unit in Saskatchewan the new value of an adequate line of machinery is about $20,000. A good secondary livestock enterprise would require about another $5,000. Buildings and improvements, which can also be purchased under the F.I.L.A. require an additional $10,000 per farm. It is clear that in the early stages of building up a farm the F.I.L.A. loan limit of $7,500 is quite restricting. Even for purposes of capital replacement this limit is too low. It is difficult for farmers to provide for machinery replacement on a cash reserve basis. In years of crop failure or short income, depreciation accruals provide an important shock-absorber. In fact, postponing capital replacement has been one of the ways farmers have absorbed the effects of extended periods of economic pressure. As a consequence the situation has often arisen where farmers find they must replace their entire line of machinery. In view of the scale of investment required, $7,500 is too low a limit to meet their needs; $10,000 would be a more realistic level. In the case of credit unions, the 221 that now exist in rural Saskatchewan could assist materially if the Federal Government were to designate them as approved lenders under F.I.L.A.

Emergency Credit

131. Emergency credit is one of the pressing needs in an industry so vulnerable to the vagaries of nature. No legislative provisions exist for making credit available to farmers who have suffered serious losses from such natural hazards as drought, flood, frost, disease, etc. Such assistance has been available to farmers in the United States since the early days of the Farm Security Act, enacted in the 1930's. If a farm is an economic unit and therefore basically a sound enterprise, there is no reason why emergency credit to carry the farmer over a disaster year should not be considered a secure investment. Such credit would not necessarily require close supervision but it would be important to define the emergency situations in which it would be made available, and to ensure that it would be used to assist only sound farm enterprises. At the present time this kind of credit is available only to farmers who have substantial collateral to offer as security. We believe that the Federal Government should provide or should guarantee loans of this kind.

Recommendations

132. A number of recommendations emerge from this discussion:

1. Less reliance should be placed upon collateral security for loans, and more upon the character of the borrower and the supervision of loans. This applies particularly to loans made by the Farm Credit Corporation or guaranteed by the Federal Government under the F.I.L.A.
2. Alternatives should also be sought for the fixed annual repayment schedules. These might take the form of flexible arrangements providing for prepayment in good years, and the more extensive use of the crop share plan.
3. The limit on maximum loans under the F.I.L.A. should be raised to reflect the larger capital requirements of farms.
4. The Federal Government should guarantee loans by credit unions to farmers on approximately the same terms as the guarantee under the F.I.L.A.
5. Emergency credit should be available under certain defined emergency situations to help farmers who are known to be sound operators, and who have economic farm units.

IV. THE IMPACT OF GOVERNMENT FINANCIAL POLICY IN THE ECONOMY

133. We would like now to turn from the Saskatchewan to the national scene. In speaking as a borrower (Section II of this brief) we as a Government have argued that we sometimes feel compelled to limit capital expenditures even when the projects involved may be of economic benefit in the broadest national sense. This is so because we are forced to act as an "enterprise"; as such we are unable continuously to assume increased debt charges to finance projects the economic benefits of which flow beyond our borders, and the revenue returns from which are, to us as a Government, uncertain. This is true over time, but it is even more clearly so during economic recessions when capital programmes should be accelerated, not retarded. If provincial governments thus act as "enterprises" only, Canada's full economic potential will not be realized, and the provinces will fail to play the co-ordinate role they should in government counter-cyclical fiscal planning.

134. Capital spending plays a very important role in determining the size and rate of growth of the national income and, as a consequence, its timing is of great economic importance. When the economy is slack it is desirable to accelerate the pace of social capital construction and to finance proportionately more of it by borrowing. When the economy is under pressure, capital expenditures should be tapered off or postponed, and proportionately more should be covered by current revenues.

135. The Government of Saskatchewan attaches paramount importance to the maintenance of full employment in the Canadian economy at large. In 1961 the Canadian economy could have produced approximately $3 billion more than was produced. It is because of the enormous wastes that are involved in unemployment such as this that we must emphasize that a primary object of governmental policy at all levels must be to keep the Canadian economy operating at full employment. Provincial governments cannot escape the fact that fluctuations in the national income have very serious effects upon their revenues, and, as a consequence, upon their tax levels and/or

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174. Capital spending plays a very important role [illegible]
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the development of their services. We note, for example, the tax increases which the provinces found to be necessary during the past three years, at a time when the per capita G.N.P. (in constant dollars) was static: six provinces increased their sales tax or imposed one for the first time; seven increased their gasoline taxes; three increased their income taxes; and property taxes rose across Canada. Even acknowledging that a fair proportion of these increases resulted from expanded services, it is revealing to compare these tax rises with the more stable provincial tax levels that prevailed during periods of economic growth (when services also were being increased). We know that the fiscal and financial policies of governments can be powerful weapons in preventing such fluctuations. The budgetary expenditures of the Government of Saskatchewan, in the current fiscal year, will amount to about $150 million. This sum, which is less than one-half of one per cent of the Gross National Product of Canada, is too small to serve as a lever upon the national income, but the expenditures of all Canadian junior governments taken together are more than 12 per cent of the Gross National Product and consequently are much too large to be disregarded in this connection.

136. The necessity for participation by all levels of government in counter-cyclical policy is illustrated by Table 2. During the decade of the 50's there has been an important change in the relative importance of expenditures by the three levels of government. In 1951 the Federal Government accounted for almost 66 per cent of all government expenditure. By 1960, the federal share had fallen to 55 per cent while the provinces' share had risen from less than 20 per cent to more than 25 per cent, and the municipal from less than 15 to over 19 per cent. This increase has been steady, and indicative of the increasing responsibilities of provincial and municipal governments. The junior governments now have control over about half of all public expenditures, and if they do not follow counter-cyclical fiscal policies, they may thwart any attempts on the part of the Federal Government to moderate the business

the development of their services. We note, for example, [illegible] which the provinces found to be necessary during [illegible] time when the per capita [illegible] provinces increased their sales tax or imposed one [illegible]

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is less than one-half of one per cent of the [illegible] Canada, is too small to serve as a lever upon the [illegible] expenditures of all Canadian junior governments [illegible] than 12 per cent of the Gross National Product and [illegible] too large to be disregarded in this connection.

116 The necessity for participation by all levels [illegible] counter-cyclical policy is illustrated by Table [illegible] the 50's there has been an important change [illegible] of expenditures by the three levels of government [illegible] Government accounted for almost [illegible] per cent of all [illegible] By 1960, the Federal share had fallen to [illegible] share has risen from less than [illegible] per cent [illegible] the municipal from less than 15 to over 16 per cent. [illegible] been steady, and indicative of the increasing [illegible] provincial and municipal governments. [illegible] that of over about half of all public expenditures, [illegible] follow counter-cyclical fiscal policies, they may [illegible] on the part of the Federal Government to moderate [illegible]

Table 2

NET GENERAL EXPENDITURE - ALL GOVERNMENTS IN CANADA

After Elimination of Inter-governmental Transfers

(For the Fiscal Year Ended Nearest to December 31)

Year	Federal	Provincial	Municipal	Total
		(Thousands of Dollars)		
1945	4,963,062	376,146	343,420	5,682,628
1951	3,520,251	1,052,173	786,098	5,358,522
1952	4,191,058	1,182,677	907,379	6,281,114
1953	4,237,094	1,229,752	1,010,176	6,477,022
1954	4,209,204	1,349,385	1,121,860	6,680,449
1955	4,314,846	1,538,695	1,172,745	7,026,286
1956	4,762,467	1,732,242	1,314,028	7,808,737
1957	5,056,908	1,981,954	1,498,311	8,537,173
1958	5,400,540	2,162,779	1,589,007	9,152,326
1959	5,644,500	2,495,195	1,831,034	9,970,729
1960	5,801,900	2,684,772	2,009,569	10,496,241
		(As % of Total)		
1945	87.3	6.6	6.1	100.0
1951	65.7	19.6	14.7	100.0
1952	66.7	18.8	14.5	100.0
1953	65.4	19.0	15.6	100.0
1954	63.0	20.2	16.8	100.0
1955	61.4	21.9	16.7	100.0
1956	61.0	22.2	16.8	100.0
1957	59.2	23.2	17.6	100.0
1958	59.0	23.6	17.4	100.0
1959	56.6	25.0	18.4	100.0
1960	55.3	25.6	19.1	100.0

Source: D.B.S. Comparative Statistics of Public Finance Vol. I Revenue and Expenditure 1945 and 1951 to 1959, October 1959.
______. 1956 to 1960.

Table 3

REVENUE AND EXPENDITURES - ALL PROVINCES

Fiscal Year Ending Mar.31	Gross General Expenditure Less Debt Redemption	Gross General Revenue	Surplus	Deficit
		(Thousands of Dollars)		
1946	456,432	501,041	44,609	-
1947	580,290	594,633	14,343	-
1948	806,544	794,911	-	11,633
1949	923,310	870,480	-	52,830
1950	1,056,983	1,021,227	-	35,756
1951	1,143,296	1,153,422	10,126	-
1952	1,256,418	1,260,411	3,993	-
1953	1,336,624	1,387,340	50,716	-
1954	1,402,625	1,480,579	77,954	-
1955	1,547,026	1,575,412	28,386	-
1956	1,746,132	1,784,387	38,255	-
1957	1,969,807	1,988,747	18,940	-
1958	2,281,427	2,270,363	-	11,064
1959	2,568,735	2,517,215	-	51,520

Source: D.B.S. Financial Statistics of Provincial Governments Revenue and Expenditure, Actual, various years.

cycle. Because the provincial governments have been assuming a larger share of government expenditures, it is important to know whether their fiscal operations have tended to stabilize the economy or not. A brief examination of total annual provincial revenues and expenditures over this period should help to form at least a rough idea as to whether provincial fiscal policy has operated in the most desirable way.10/

137. Table 3 shows the provincial revenues and expenditures and the total annual provincial surplus or deficit since 1946. We may compare this with the phases of the post-war business cycle in Canada. According to Professor Hood's submissions to the Senate Manpower Committee, Canada's economic activity has experienced the following turning points in the post-war period.

Table 4

POST WAR TURNING POINTS IN CANADIAN ECONOMIC ACTIVITY

Year	Quarter	Month	Character of Turning Point
1946	First	February	Trough
1948	Fourth	October	Peak
1949	Third	September	Trough
1953	Second	April	Peak
1954	Second	June	Trough
1957	Second	April	Peak
1958	Second	April	Trough
1960	Second	April	Peak
1961*	First	March	Trough

*The final turning point is not included in Prof. Hood's table.

During the 1946-48 recession, provincial fiscal operations moved in the right direction but did not exert a positive stabilizing influence on the economy until towards the end of the recession. During the 1953-54 recession, the effect of provincial policy was decidedly pro-cyclical. During the third recession it was mildly counter-cyclical. During the intervening periods of expansion, the record was similarly uneven. Over the whole post-war period the net effect of provincial fiscal policies has been mixed, and on the whole hardly satisfactory for a sector of the economy of such importance.

10/ The only data available for such a study are the comparable public finance statistics published by D.B.S. and the techniques employed by D.B.S. in developing these statistics should be borne in mind. For our purpose the Gross General Revenue and Expenditure concepts are most appropriate.

[illegible] ...ecause the provincial governments have [illegible] a [illegible] share of government expenditures, it is important to [illegible] their fiscal operations have tended to stabilize the economy or not. A brief examination of total annual provincial revenues [illegible] over the post-war period should help to form at least a rough idea as to whether provincial fiscal policy has operated in the most desirable [illegible]. 1/

137. Table 3 shows the provincial revenues and expenditures and the total annual provincial surplus or deficit since 1946 [illegible] this with the phases of the post-war business cycle [illegible] to Professor Hood's and [illegible] to the [illegible] economic activity has experienced the following [illegible] post-war period.

Table 3

[illegible]

[illegible]	[illegible]	[illegible]	[illegible]
1946	First	February	[illegible]
1949	Fourth	October	[illegible]
194[illegible]	Third	[illegible]	[illegible]
1953	Second	April	[illegible]
1954	Second	June	[illegible]
1957	Second	April	[illegible]
1958	Second	April	[illegible]
1961*	First	March	[illegible]

*The final turning point [illegible] not [illegible]

During the 1946-[illegible]3 recession, provincial [illegible] right direction but did not exert a positive stabilizing influence on the economy until towards the end of the recession [illegible] recession, the effect of provincial policy [illegible] During the third recession it was [illegible] intervening periods of expansion, the record was similarly [illegible] the whole post-war period the net effect of provincial fiscal policies has been mixed, and on the whole hardly satisfactory [illegible] economy of such importance.

1/ The only data available for such a study are the [illegible] Finance Statistics published by D.B.S. [illegible] D.B.S. [illegible] these [illegible] should be [illegible] General Revenue and Expenditure [illegible] appropriate.

138. Neither has federal fiscal policy been en irely satisfactory. There has been a series of deficits which undoubtedly have served to offset in part the slump in economic activity, but these have not always been well timed, nor have they always been planned. The 1957-58 deficit, $39 million, was not sufficient to counteract the recession of that year. On the other hand the deficits in the recovery years of 1959 and 1960 were very large. Then in 1960-61 a $12 million surplus was forecast; it was the recession of that year that largely created its own deficit.

Table 5

Government of Canada

Budgetary Revenues, Expenditures and Surplus or Deficit

(In millions of dollars)

Fiscal Year Ended March 31	Budgetary Revenue	Budgetary Expenditures	Surplus	Deficit
1956	4,400.0	4,433.1		33.1
1957	5,106.5	4,849.0	257.5	
1958	5,048.8	5,087.4		38.6
1959	4,754.7	5,364.0		609.3
1960	5,289.8	5,702.9		413.1
1961	5,617.7	5,958.1		340.4

Source: Department of Finance, Public Accounts of Canada

We are not arguing that simple series of surpluses and deficits is sufficient for an economy whose rate of growth is persistently slow. What we are suggesting is that Canada is not using with sufficient vigour or imagination, nor selectively enough, the arsenal of the tax, expenditure, and monetary policies available.

139. The principle of counter-cyclical government budgeting is one of unquestioned importance - one that must be applied at the provincial and local levels, as well as at the federal level of government if we are to achieve a healthy and stable economy. The Government of Saskatchewan is prepared to co-operate with a policy of counter-cyclical management of capital formation and government financing, but the proper leadership for this must come from the Federal Government. Counter-cyclical actions are essential in the sphere of monetary policy as well. When the economy is under inflationary pressure, borrowing

[illegible] 1957, [illegible] has [illegible] of [illegible] in [illegible] the [illegible] activity, but [illegible] [illegible] not [illegible] their payments. [illegible] million, was not sufficient to [illegible]. On the other hand the deficits [illegible] 1961 were very large [illegible] in 1960 [illegible] million [illegible] of that year [illegible].

Table [illegible]

[illegible]

[illegible]			
1957	[illegible]	[illegible]	[illegible]
1958	[illegible]	[illegible]	[illegible]
1959	[illegible]	[illegible]	[illegible]
1960	[illegible]	[illegible]	[illegible]
1961	[illegible]	[illegible]	[illegible]

Source: Department of Finance, *Public Accounts*, [illegible]

We are not arguing that small surpluses [illegible] sufficient for an economy whose rate of growth [illegible]. What we are suggesting is that Canada is not [illegible] vision or imagination, [illegible] expenditure, [illegible] policies [illegible].

116. The [illegible] of unquestioned importance [illegible] provincial [illegible] local levels, as well as [illegible] if we are to achieve a [illegible] of [illegible] is [illegible] counter-cyclical [illegible] the proper [illegible] counter-cyclical actions are [illegible] as well. [illegible]

should become more difficult and interest rates should rise; the converse should occur in times of unemployment. The responsibility for bringing aboutsuch developments in the capital markets belongs to the Federal Government and to the Bank of Canada which is (or should be) the monetary arm of the Federal Government.

140. We appreciate the fact that counter-cyclical monetary policy means that in times of pressure we, as a junior government, will find that borrowing is more difficult and more costly. We do not object to this: on the contrary, we welcome such a policy, and would like to carry the matter further by means of federal-provincial co-operation in anti-inflationary fiscal and financial policies. The other side of the cyclical pattern is not to be neglected, however, and, if post-war Canadian experience and trends are a reliable guide, we may in the future have to be more often concerned with problems of unemployment and slow economic growth than with the problems of an inflationary economy.

141. In times of economic slack, borrowing should be made easier, interest rates should be low, and social capital expenditures should be encouraged. Monetary policies and fiscal policies should work together to promote economic growth and high employment. In this connection, we must register our strong dissatisfaction with the monetary policies of the past few years. The Canadian economy has been in a continuous state of unemployment since 1957 and yet we have experienced high interest rates and conditions in the capital markets that have made borrowing difficult as well as expensive. This policy may well have slowed down the pace of capital development by junior governments, and this at the very time that economic sense called for its acceleration.

142. We have already referred to the necessity of taking into account the full benefits that accrue from government capital expenditures in evaluating the contribution they make to the economy. This is especially important if we attempt to design our social capital expenditures programme to work on a counter-cyclical basis. In a period of unemployment and lagging economic growth, these expenditures not only create desirable assets and give employment in an immediate sense but they also have considerable

should become more difficult and interest rates [illegible], [illegible] should occur in times of unemployment. [illegible] [illegible] should [illegible] [illegible] government [illegible] to the [illegible] of [illegible] [illegible] of the Federal Government.

140. [illegible] that at times of [illegible] [illegible] long [illegible] [illegible]. On the contrary, [illegible] matter further by [illegible] federal [illegible] [illegible] [illegible] pattern is not [illegible] period [illegible] [illegible] [illegible] growth [illegible] problems of [illegible].

141. In times of economic slack, [illegible] interest rates should be [illegible] and [illegible] capital [illegible] encouraged. Monetary policies and fiscal [illegible] to promote economic growth and [illegible] register our strong [illegible] the past few years. The [illegible] of unemployment at [illegible] and [illegible] and conditions in the capital markets that [illegible] as well as [illegible]. This policy may well have [illegible] capital development by [illegible] that economic [illegible].

142. [illegible] have already [illegible] to the [illegible] the full benefits [illegible] government [illegible] evident [illegible] important [illegible] to [illegible] our social [illegible]

lagging economic growth, [illegible] expenditures [illegible] and give employment [illegible] in [illegible] sense but they [illegible]

secondary effects on the economy. The incomes created directly by these expenditures are largely re-spent by their recipients and add to the demand for final goods and services in a widespread fashion throughout the economy. Also, the direct capital expenditures are demands for capital equipment which may, in certain sectors of the economy, cause further capital expenditures in order to create the productive facilities necessary to satisfy these demands. Capital expenditures, as the economists put it, have secondary "multiplier" and "accelerator" effects and their total contribution to expanded demand in a period of unemployment may be several times their own amount.

143. In a period of unemployment it is therefore highly desirable that governments should expand their expenditure programmes and undertake deficit financing. While it is true, in a primitive sense, that such deficit financing is highly likely to produce expansionary effects upon the economy almost regardless of how the deficit is accomplished, it would surely be a condemnation of our governmental skill if we could to nothing more than produce indiscriminate deficits at such times. The Government of Saskatchewan holds the view that periods of slack in the economy should be seized upon as an opportunity to accelerate those projects of social capital formation which are so much in need. Many of these projects are under the aegis of provincial and municipal governments, but the greater financial power and flexibility belongs to the federal government. We urge, therefore, the necessity of federal-provincial planning and co-operation in the fields of counter-cyclical budgeting and social capital development.

144. In the case of counter-cyclical expenditures the extra-provincial impact of our activities in the province is perhaps clearer than in other cases, but the point we are making here has a wider application than the question of economic stability alone. Junior governments are responsible for the financing of many activities which are of broad concern to Canada at large. In a good many of these areas the federal government has already accepted a measure of co-ordinate financial responsibility, for example, education, health, and housing.

s[illegible]ry effects on the economy [illegible] inc[illegible] [illegible] [illegible] y [illegible] r[illegible]

[illegible]xpenditures are [illegible]rgely re-spent by their recipients [illegible] will re[illegible]

beyond [illegible] that [illegible] goods and services [illegible] [illegible] [illegible] [illegible] through[illegible]

the economy. [illegible], the d[illegible] [illegible] [illegible] [illegible] [illegible] [illegible] for

capital equip[illegible] [illegible] [illegible], in certain sectors of the economy, [illegible]

further capital expenditures [illegible] order [illegible] [illegible] [illegible] [illegible] facilities

necessary to satisfy these demands. [illegible] [illegible] [illegible] [illegible] [illegible]

[illegible] have secondary [illegible] [illegible] [illegible] [illegible] [illegible] their

total contribution [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]

several times their own amount.

[illegible] In a period of unemployment it [illegible] [illegible] [illegible]

that governments should expand their expenditures [illegible] [illegible] [illegible]

deficit financing. [illegible] is true, [illegible] [illegible] [illegible]

deficit [illegible] is highly likely to produce [illegible] [illegible] [illegible]

the economy almost regardless of how [illegible] [illegible] [illegible] [illegible]

would surely be [illegible] [illegible] [illegible] [illegible] [illegible]

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jects are under the aegis of provincial and [illegible] [illegible] [illegible]

greater financial power and flexibility [illegible] [illegible] [illegible]

We urge, therefore, [illegible] [illegible] of federal [illegible] [illegible] [illegible]

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[illegible] to Canada at large. [illegible] [illegible] [illegible] these [illegible] [illegible]

[illegible] Government has already [illegible] a measure of [illegible] [illegible] [illegible]

[illegible] [illegible], for example, education, health, [illegible] [illegible]

145. What is needed is a new departure in this area of joint responsibility, especially insofar as it concerns capital construction projects The provinces and the federal government should plan their programmes ahead and they should co-operate together both in the planning and in the execution of these programmes. In order to promote this co-operation and co-ordination, the Government of Saskatchewan has frequently suggested over the past several years that permanent machinery be established for federal-provincial research, consultation, and planning.[11/] Specifically, what we recommend is that a permanent committee of Ministers of Finance and Provincial Treasurers be established, to meet at least once annually for the purpose of reviewing the needs of the economy and the financial policies suggested by the economic trends. Every year in early December, at about the time most budgets are being considered, this Committee would sit down to review the performance of the national economy and its regions, and to consider alternative forecasts as to how it will perform in future months. Weak spots in the economy, by industry and by region, would be identified. Then the impact of these trends upon government finances, and the impact of government finances on the trends would be considered. The effect of alternative government policies might be weighed, and the appropriate "public policy mix" discussed. The Committee would be assisted in its work by an existing committee of senior officials - the Federal-Provincial Continuing Committee on Fiscal and Economic Matters.

146. Out of these meetings would emerge not agreements on budgetary policy, for ministers of finance could scarcely commit their colleagues in such matters, but suggestions as to the direction which financial policies might usefully take. Such deliberations would unquestionably influence, we think, the formulation of provincial budgets, for provincial ministers are just as anxious to act intelligently, and in the interest of their own and the national economy, as are federal ministers. We freely admit that as a Government we have found the exchanges of views between our officials to be most helpful, and we believe the time has come to give these discussions additional point by establishing formal machinery for ministerial consultation.

11/ See, for example, the presentation of Premier T. C. Douglas to the Federal-Provincial Conferences of 1955, 1957 and 1960, and the submission of the Government of Saskatchewan to the Senate Committee on Manpower and Employment, 1961. This development has also been urged in correspondence between the Government of Saskatchewan and the Government of Canada.

14) What is needed is a new departure [illegible] stability, especially insofar as it concerns the capital [illegible] projects. The provinces and the federal government should [illegible] their programmes and they should co-operate together more [illegible] the execution of these programmes. In order to promote this [illegible] action, the Government of Saskatchewan has for [illegible] suggested over the past several years that a permanent [illegible] for capital-programming research, consultation, and planning.[1] [illegible]

[illegible] the purpose of avoiding [illegible] suggested [illegible] the [illegible] of the national economy [illegible] consider alternative [illegible] capital [illegible] in the economy, by industry, and [illegible] Than the impact [illegible] governments [illegible] of government [illegible] on the trend would [illegible] alternative [illegible] policies [illegible] "public policy" [illegible] with [illegible] existing committees of senior officials [illegible] and [illegible]

15) Out of [illegible] would [illegible] (for instance) of [illegible] could [illegible] In the [illegible] it [illegible]

[illegible]

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147. It would not be sufficient simply to consult in these matters however. There should be developed, when necessary, federal-provincial counter-cyclical programmes and projects, jointly agreed upon, and these would have to be made financially viable. It is for this reason that we suggested earlier federal government contributions to the provincial-municipal projects are involved. These would be embodied in two programmes: special grants or loans to finance additional social capital projects when the economy is operating below capacity, and an acceleration of projects under a continuing federal-provincial economic development programme. Junior governments would be unable fully to participate in national economic planning unless such aid were available, and what is more, inefficiency and distortions in the structure of capital formation will result if the provinces are required to operate on an independent and purely competitive basis in financing these projects.

148. We do not wish to leave the impression that we believe that fiscal planning alone is required to achieve stable economic growth. There are other equally important economic policies which must be examined by the Federal Government. For example, it seems to us that a re-evaluation of tariff policy, long a chosen instrument of Canadian economic policy, is overdue. Canada's tariff policy cannot be based upon any notion of economic isolationism; for many reasons we must concern ourselves with opening the channels of world trade. Our resources industries depend upon the freest possible trade. The "rationalization" of Canadian industry will most likely be achieved by a gradual and progressive lowering of the tariff walls which have tended to produce a structuring of industry not suited to Canadian markets. Lower tariffs would tend to stimulate growth in income in the economic regions most in need of development; this in turn would tend to stimulate growth in regional markets and in regional industries.

149. We believe, too, that careful thought should be given to Canada's exchange rate policies. An uncertain policy - an exchange rate that is neither fixed nor free - can only result in a lack of confidence in Canada's economic management. This could lead to damaging speculative

It [illegible] between [illegible] could be developed, when necessary [illegible] counter-cyclical programs [illegible] projects, [illegible] and there would have to be made financially viable [illegible] that we so often consider [illegible] municipal projects are involved. These would be [illegible] [illegible] or loans to [illegible] additional [illegible] the economy is operating below capacity, [illegible] under [illegible] fiscal-monetary [illegible] However [illegible] [illegible] [illegible] disruptions [illegible] problems are required [illegible]

[illegible] fits [illegible] There are other equally important economic [illegible] by the Federal Government. [illegible] tion of tariff policy, long [illegible] policy, is overdue. [illegible] tion of new [illegible] selves with each [illegible] level [illegible] the lowest possible [illegible] industry [illegible] ing of the [illegible] industry [illegible] [illegible] markets [illegible]

[illegible] too [illegible] tariff [illegible]

capital flows. Furthermore, it could diminish too much the capital inflow upon which much of Canada's development has depended, and our freedom to employ domestic policies to stimulate the economy could well be obstructed. On both counts economic growth would be retarded. For our part we are not as fearful of foreign capital in Canada as some others seem to be: by any meaningful measure (for example, as a percentage of G.N.P.) Canada's payment of interest and dividends abroad is lower today than in the 1930's or the years before World War I. Nor are we fearful, as long as our rate of economic growth is slow, of a monetary policy which exerts its influence in the direction of greater liquidity in the economy. What is to be feared, we think, is the emergence of an intractable situation in which it becomes difficult to employ expansionary policies at home, because of balance of payments difficulties induced by a lack of capital from abroad.

150. These are some of the problems with which the federal authorities must grapple. As a provincial government we do not have the competence to suggest solutions, nor is it in our province to do so. We simply point out that effective economic planning requires not only co-ordinated federal-provincial fiscal planning but effective monetary and trade policies as well.

V. FINANCIAL INSTITUTIONS AND CAPITAL MARKETS

151. In Parts II and III of this brief we commented on the problems of Saskatchewan borrowers - government, co-operative, and private. We have not presumed, in so doing, to give a catalogue of rigidities and imperfections in the capital markets; there are others more competent to make these judgments than are we. However, there are certain aspects of financial organization which we feel to be of unusual importance to the Canadian economy, and upon which we should like to comment. Our interest as a provincial government in these matters is very real, though it is not different in kind or degree from that of other institutions or individuals who are concerned with the structure of our financial institutions and markets.

The Concentration of Financial Institutions

152. The structure of banking and other financial institutions in Canada is a highly concentrated one. As a result of the bank mergers of the past several years we now have only eight chartered banks in Canada, some of which are much larger than others. The three largest banks now account for about 70 per cent of total chartered bank assets. There are a larger number of trust companies but, again, a small number account for the bulk of their total business. The four largest trust companies have about 70 per cent of total trust company assets. In addition there are close connections between each of the large chartered banks and each of the large trust companies, so that trust companies and banks in Canada cannot really be regarded as financial institutions that are independent of one another. Mortgage loan companies display a similar degree of concentration. Seven companies account for virtually all of the total assets of such companies and the four largest make up about 90 per cent of this total. Life insurance companies are somewhat less concentrated than these other institutions, but only relatively speaking. The five largest life insurance companies in Canada have almost half of the total Canadian dollar assets of all life insurance companies. It is clear that

I have [illegible] of this brief [illegible] on the problems of Saskatchewan borrowers - government, co-operative, and private. We have not [illegible], in [illegible], to give a [illegible] of [illegible] and imperfections in [illegible] capital markets; there are others more competent to [illegible] than are we. However, there are certain [illegible] of [illegible] organization [illegible] we feel to be of [illegible] importance to the Canadian economy, [illegible] [illegible] shall [illegible] comment. Our interest [illegible] [illegible] overseas [illegible] [illegible] is not different in kind [illegible] that [illegible] individuals [illegible] [illegible] of our [illegible] and [illegible].

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[illegible] The [illegible] and other [illegible] in Canada is a highly concentrated one. As a result [illegible] the [illegible] of the past several years we now have only eight chartered banks in Canada, some of which are much larger than others. The three largest banks now account for [illegible] per cent of total chartered bank assets. There are a larger number of trust companies but, again, a small number account for the bulk of their total assets. The four largest trust companies have about 75 per cent of [illegible] [illegible] assets [illegible] [illegible] close connections between [illegible] the large chartered banks [illegible] of the large trust companies, so [illegible] these [illegible] banks [illegible] cannot really be [illegible] that are independent of one another. [illegible] companies display a similar degree of concentration. Seven companies account for [illegible] of the total assets of such companies and the four largest [illegible] about 60 per cent of this total. Life insurance companies are somewhat less concentrated than these other institutions, but only relatively speaking. The five largest life insurance companies in Canada have almost half of the total Canadian dollar assets of all life insurance companies. It [illegible] that

all the important segments of the financial community where (non-corporate) savings are collected are characterized by a high degree of concentration of enterprise. The growth of mutual funds in the past few years and of pension funds in the near future will very likely have the effect of channelling an even larger portion of personal savings into such institutions and will thereby add further to the economic significance of this concentration. We do not raise these points in order to argue the merits of small financial institutions against large ones but in order to point out that the channels through which investment funds flow in Canada are subject to large and growing rigidities.

153. The financial institutions are restricted by law in the use they may make of their funds. Most of them are greatly restricted as well by conventions of their own making and these may be equally inflexible and unresponsive to the changing needs of the economy. The structure of our financial institutions, taken together with their practices, is not ideally suited to the needs of a dynamic economy. The flow of savings should be able to change more easily than it does in Canada to serve the growing points of the economy and to service those areas (such as the social capital area) where investment is most needed.

154. To the extent that the flow of savings is less flexible than it might be because of legal restraints, the concentration of these institutions is not a relevant concern. But we feel sure that the conventional rigidities are equally important and these are directly related to the number of independent centres of decision that exist in the field of finance. The Government of Saskatchewan holds the view that changes in the law governing those institutions are desirable but even more necessary is that their actual practices, within the law, should be given more prompting and direction into desirable avenues by the federal government and the monetary authorities. In this connection we would argue for the extension of the statutory sphere of influence of the Bank of Canada beyond its present constituency, the chartered banks, to encompass all major financial institutions that are important in collecting and allocating investment funds.

Pensions Financing

155. One of the major financial developments of the past generation has been the growth of savings in the form of pension contributions. Even with the rise of government non-contributory pensions, it seems apparent that larger and larger numbers of people will wish to accumulate further pension credits by means of contributions during their earning years. The flow of savings emanating from this source in the future could well be very large and may even, in time, dwarf other forms of personal saving.

156. A great deal of discussion has taken place in recent years concerning the financing of contributory pensions. The Government of Saskatchewan is of the opinion that government should take an active role in the development of pensions schemes. A joint federal-provincial contributory pensions plan should be established to which both levels of government, employers, and employees should contribute on a compulsory statutory basis. This compulsory plan should be for the purpose of establishing an adequate level of pension benefits for all Canadians at age 65 with an adequate minimum being payable without reference to contributions. The pensions paid should carry an index provision which would cause them to vary with the consumers' price index. As and when price and productivity levels rose, the contributions would rise correspondingly, and they should be sufficient to meet the escalated pensions. We regard this last provision as very important. The pensioner must be protected against the monetary erosion of real values. In our view only a government operated pensions plan could undertake to provide this protection.

157. We do not advocate that private financial institutions should be restrained from offering their own pension plans for sale. We are of the view, however, that this is a field in which a government agency can operate more efficiently and more comprehensively than private institutions can and since this is a matter of general economic and social interest, government should not be backward in entering the field. The Government of Saskatchewan offers its co-operation to the other provinces and the Federal Government in developing the pensions programmes we suggest.

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155. [illegible] of the major financial developments of the past [illegible] has been the growth of savings [illegible] with the rise of government non-contributory [illegible] that larger and larger numbers of people [illegible] pension credits by means of contributions [illegible] of savings amount[illegible] very large and may [illegible]

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The Constitution and Powers of the Bank of Canada

158. The disagreement between the former Governor of the Bank of Canada and the Minister of Finance, and the events which culminated in the resignation of Mr. Coyne, raise some questions concerning the constitution of the Bank of Canada that should be carefully considered by this Commission. For our part, the Government of the Province of Saskatchewan has always assumed that the Government of Canada is responsible for monetary policy. It is neither feasible nor desirable to regard a central bank as autonomous in the development and implementation of the nation's monetary policy. Monetary policy is one of the important instruments available for promoting the stability and growth of the economy and it must be employed in close co-ordination with other governmental techniques and powers, under the direction of the general economic policy of the government. Confusion and ambiguity was permitted to enter this important area by the Minister of Finance's repudiation of responsibility for monetary policy. This was a most unfortunate development which legislative provisions should prevent from occurring again.

159. The central bank statutes of most other countries make plain the fact that the policy of the bank is the policy of the government. In some countries, the United Kingdom for example, important changes in central bank policy are announced in the name of the responsible minister in order to make this fact crystal clear. Many central bank statutes have specific clauses which bind the bank to accede to any directive given to it by the government.

160. The Bank of Canada Act, in its present form, is an exceptional central bank statute in this respect for it says nothing and does nothing to assure that the policy of the Bank will be that of the Government of Canada and that the Government will publicly accept responsibility for this policy. We will not discuss here the various devices that might be adopted to rectify the situation for we are confident that this Commission will make a thorough examination of these alternatives. Nor do we wish to make a specific proposal in this regard, but we urge most strongly that this Commission should recommend changes in the Bank of Canada Act which would remove any ground for ambiguity in this important matter.

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158. The disagreement between the [illegible] of the Bank of Canada and the Minister of Finance, and the events which have led to the resignation of Mr. Coyne, raise serious questions [illegible] of the Bank of Canada that should be carefully [illegible]. For our part, the Government of the Province of [illegible] is [illegible] that the Government of Canada is [illegible] monetary policy. It is neither feasible nor desirable to [illegible] in the development and implementation of [illegible] policy. Monetary policy is one of the important instruments [illegible] the stability and growth of the economy and it must [illegible] co-ordination with other government [illegible] directors of the general economic policy of the [illegible] ambiguity was permitted to enter [illegible] finance's responsibility (of responsibility for monetary policy) [illegible]

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161. The powers of the Bank of Canada are, by literal interpretation of the Act, rather restricted by comparison with many other central banks. Open market operations, the variation of bank cash reserve requirements and the setting of Bank Rate are the important specific powers which the Act now gives to the Bank of Canada. Of these three, the second has never been used, and the third has been virtually sterilized as an effective instrument of monetary policy by the Bank's adoption of a floating Bank Rate. The Bank has certain powers however, which are not specified by statute, but which spring from the general influence a central bank can bring to bear on the financial community. For example, the adoption by the chartered banks of a minimum liquid assets ratio in 1955 was initiated by the Bank of Canada and carried into effect on the basis of the general influence and powers of the central bank, without specific statutory authorization. It now appears to be an established fixture of chartered bank practice but it still lacks any statutory basis. Similarly, the Bank of Canada has no legal authority to control the lending practices of the chartered banks but it has in fact used its general powers of influence or "moral suasion" to induce an alteration of these policies on a number of occasions in recent years.

162. Considered in the aggregate however, we do not feel that the powers of the Bank of Canada, both statutory and non-statutory, are sufficient to the performance of modern central banking tasks. Specifically, these powers appear to be deficient in two respects. First, modern monetary management requires that the central bank should be able to employ devices which are able to vary the impact of its monetary policies on different sectors of the economy. This is not a question of discriminatory versus non-discriminatory monetary policies for "general" monetary policies can be and often are highly discriminatory as among geographic regions, industries, size of businesses, etc. The question is, in fact, only whether the impact of monetary policy, which is varied and heterogeneous in any case, should be haphazard or designed in its actual impact. The Government of Saskatchewan is of the view that the Bank of Canada must play an important role in national economic planning and that instruments

161. The powers of the Bank of Canada [illegible], by [illegible] interpretation of the Act, rather restricted by comparison with many other central banks. Open market operations, the variation of bank cash reserve ratios [illegible] and the setting of Bank Rate are the important operative powers which the Act now gives to the Bank of Canada. Of these three, the second has never been used, and the third has been virtually stultified as an effective instrument of monetary policy by the Bank's adoption of a floating Bank Rate. The Bank has certain powers, however, which are not specified by statute, but which spring from its general influence [illegible] which it can bring to bear on the financial community. For example, [illegible] the maintenance by the chartered banks of a minimum liquid assets ratio [illegible] was [illegible] by the Bank of Canada and carried into effect [illegible] the [illegible] influence and powers of the central bank [illegible] without legislative authorization. It now appears to be an accepted [illegible] of Canadian banking practice but it still lacks any statutory [illegible]. [illegible] the Bank of Canada has no legal authority to enforce the [illegible] requirement of the chartered banks but it has in fact [illegible] the general pattern of [illegible] or "moral suasion" to induce an alteration of lending policies on a number of occasions in recent years.

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of policy which are highly flexible and capable of heterogeneous impacts upon the various sectors of the economy should be added to the Bank's armament. Accordingly, the Government of Saskatchewan urges the Commission to consider carefully those central banking techniques which have these qualities, such as, for example, central bank calls for "special deposits" from chartered banks and other financial institutions, powers to impose floors and ceilings on the difficult categories of credit extension, etc.

163. The second major deficiency in the powers of the Bank of Canada is that it has no direct control over the non-bank financial institutions. These institutions may not have appreciable powers to create new means of payment in our economy, and if one regards the whole task of central banking as that of governing the size of the money supply, there would be no need to extend Bank of Canada powers beyond the chartered banks. In our view, however, a modern central bank has, and will increasingly have, to concern itself with matters other than the simple size of the money supply. The flows of savings and investment that take place in the economy must, as we have argued elsewhere in this brief, be an increasing concern of the federal government. The non-bank financial institutions play very important roles in these savings-investment flows and should be brought under the influence of the central bank. The Government of Saskatchewan suggests therefore that this Commission should recommend an extension of the powers of the Bank of Canada to encompass in effect, all institutions that are substantial collectors and distributors of private savings.

Co-operative Financial Institutions

164. In recent years there has been a considerable growth in the development of co-operative financial institutions of various sorts. Credit unions, in particular, have emerged from their infancy, and are coming to occupy an increasingly significant role in the economy. We look forward to the further growth of these institutions, not only because we are convinced that they can perform important financial tasks efficiently but because we believe it to be important in itself to extend the co-

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154. In recent years there has been [illegible]

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look forward to the further growth of these institutions, [illegible]

we are convinced that they can perform [illegible]

and because we believe it to be important [illegible]

operative idea into the field of finance. The development of these institutions will spread an understanding of financial operations and management much more widely throughout the community. This contributes greatly, we think, to more informed and rational evaluation of our financial system.

165. The Government of Saskatchewan has actively supported the development of co-operative financial institutions in the province and we are very pleased with the results of these efforts over the past several years. There are now some 280 credit unions in operation in Saskatchewan, with 156,000 members, assets of $112 million, and loans in force of about $66 million. The Saskatchewan Co-operative Credit Society, to which we have already referred, acts as a clearing house to receive money on deposit from member credit unions and co-operatives, and to make loans to its (corporate) shareholder members. In 1952 a Co-operative Trust Company was established for the purpose of making long-term mortgage loans to individuals, of preparing wills and managing estates, and of serving as another repository for the savings of co-operative and credit union members.

166. Our experience with these co-operative financial institutions leads us to believe that there is a real role to be played by such institutions in practically all areas of finance. We recommend that the Federal Government should recognize this development as a significant and desirable one. We suggest that this Commission should recommend to the Federal Government that, by appropriate legislation, it should encourage credit unions and other co-operative financial institutions.

Government Financial Institutions

167. Closely related to the development of co-operative institutions is the growth of institutions sponsored by government. The Federal Government has already undertaken significant activity of this sort through the establishment of the Central Mortgage and Housing Corporation and the Industrial Development Bank. In Saskatchewan, we have also contributed to the growth of such institutions by the establishment in 1947 of the Industrial Development Fund.

operative idea into the field of finance. The [illegible] institutions will spread an understanding of [illegible] great much more widely throughout the community. [illegible] think, to more informed and rational evaluation of [illegible] financial [illegible]

The Government of Saskatchewan has [illegible] the development of co-operative financial institutions in [illegible] very pleased with the results of these efforts over the past [illegible] There are now some 290 credit unions [illegible] 356,000 members, assets of $419 million, and [illegible] 385 million. The [illegible] co-operative [illegible] have already referred [illegible] from member credit unions and co-operatives and [illegible] (corporate) shareholder members. In 197[illegible] was established for the purpose of making long-term mortgage loans [illegible] individuals, of preparing wills and [illegible] estates [illegible] other repository for the savings of co-operatives and [illegible]

46. Our experience with these co-operative institutions [illegible] us to believe that there is a real role [illegible] institutions in practically all areas of finance. [illegible] Federal Government should recognize this [illegible] desirable [illegible] suggest that this [illegible] Federal Government that, by appropriate legislation, it [illegible] credit unions and other co-operative financial institutions.

V. [illegible]

47. Closely related to the development of co-operative [illegible] the growth of institutions sponsored by government. The [illegible] Government has already undertaken significant [illegible] through the establishment of the Central Mortgage and Housing Corporation and the Industrial Development Bank. [illegible] contributed to the growth of such institutions by the [illegible]

168. These government institutions were established to correct some of the deficiencies of the private capital market of which we have spoken elsewhere in this brief. We believe that further development is needed here. Government sponsored institutions in the fields of industrial risk capital, small business capital, and consumer credit should be studied by this Commission with a view to improving the allocation of capital funds in Canada

Disclosure of Financial Facts

169. It can scarcely be argued that producers and consumers are unable to perform their tasks efficiently if essential facts are not available to them. There is one area in particular in which those facts are denied. Many of the contracts which the ordinary individual engages in, either as borrower, or lender, are ones in which the most essential fact of all - the price - is either hidden, or stated in a misleading fashion.

170. The person who purchases a savings type of life insurance policy does not know what rate of interest is being paid on his savings. The person who borrows from a personal loan or finance company or who enters a conditional sales agreement with a merchandiser often does not know the true rate of interest he will be paying. The rates of interest charged by some of our chartered banks on personal loans are sometimes stated in terms which may be misleading. We regard this as not only unfair to the consumer who, typically, cannot work the complicated mathematics necessary to determine the interest rates in such cases, but a disservice to the economy. If the price system is to play a role in the allocation of funds it is essential that all borrowers and lenders know what the prices actually are.

171. We recommend, therefore, that this Commission should study the various interest formulas that could be used in various lending and borrowing transactions and determine which are most suitable to different cases. The selected formulas should be made obligatory for all who engage in borrowing-lending contracts and it should be made an offence not to display prominently on all such contracts the rate of interest embodied, as calculated by the authorized formula.

These government institutions [illegible] of the deficiencies of the private [illegible] we have [illegible] elsewhere in this brief. We believe that [illegible] is needed here. Government sponsored institutions [illegible] capital, small business capital, and consumer [illegible] should [illegible] this Commission with a view to improving the [illegible] funds in Canada.

[illegible]

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170. The person who purchases a savings [illegible] does not know what rate of interest is [illegible] person who borrows from a personal loan or finance company [illegible] a conditional sales agreement with a merchandise [illegible] true rate of interest he will be paying. The rates of interest [illegible] some of our chartered banks or personal loans are [illegible] terms which may be misleading. [illegible] consumer who, typically, [illegible] to determine the interest rates [illegible] such [illegible] economy. If the price system is to play a [illegible] it is essential that all borrowers and lenders know what the prices [illegible]

171. We recommend, therefore, that this Commission should [illegible] various interest formulas that could be used in various [illegible] borrowing transactions and decide which are most [illegible] cases. The selected formulas should be made obligatory [illegible] in borrowing-lending contracts and it should be made an offence not to display prominently on all such contracts the rate of interest [illegible] calculated by the authorized formula.

Regulation of New Security Issues

172. We would like to comment on one further point, which we believe may come under the terms of reference of this Commission. The raising of capital by the issuing of new securities is a very important process in an economy. The prevention of nefarious practices in this area is important not only from the standpoint of protecting investors, but for the more strictly economic purpose of improving the capital investment process. The various provinces, Saskatchewan among them, have attempted to render these undesirable practices illegal and to police the activity of new security issues in order to make the law effective. The Government of Saskatchewan is of the view that legal restraints and policing of this matter in Canada are, however, insufficient. Our international reputation has suffered from our laxity in this regard and damage is done to the economy from the resulting inability of good projects to acquire capital in legitimate and respectable ways. We feel that the time has come for the Federal Government to give leadership towards the development of uniform and effective provincial legislation, and if necessary to legislate in this area.

173. We therefore suggest that this Commission should make specific recommendations concerning the law relating to new security issues, and its administration or, failing that, that it should recommend that study of this matter be undertaken at an early date by another body.

* * * * * *

174. We as a Government, in common with other borrowers and lenders, look forward to the Commission's analysis of the capital markets and the flow of funds. For it is difficult enough to function intelligently in the capital markets without the added impediment of inadequate information as to their structure and functioning. This we hope will be one of the major contributions of the Commission: to inform the people of Canada as to how their savings are being managed - be they individual, business or government savings - and to ensure that such information is made available on a continuing basis.

172. We would like to comment on one of [illegible] may come under the terms of reference of this Commission [illegible] capital by the issuing of new securities [illegible] an economy. The prevention of fraudulent [illegible] not only from the standpoint of protecting [illegible] strictly economic purposes of [illegible]. The various provinces, [illegible] these undesirable practices [illegible] security issues in order to [illegible]. The Government of Saskatchewan is of the view that [illegible]

has suffered from our laxity in this regard [illegible] economy from the resulting [illegible] in legitimate and respectable ways. We feel that [illegible] the Federal Government to [illegible] uniform and effective provincial legislation [illegible] in this area.

173. We therefore suggest that [illegible] recommendations concerning the new regulatory [illegible] its introduction or, failing that, that [illegible] of this matter be undertaken at an early date by [illegible]

174. We, as a government, [illegible] look forward to the Commission's [illegible] flow of funds [illegible] it is difficult enough to [illegible] the capital markets without the [illegible] as to their structure and functioning [illegible] major contributions of the Commission [illegible] as to how their savings are being [illegible] or government savings [illegible] able on a continuing basis.

APPENDIX A

Statistical Appendix

TABLE I

COMPARATIVE STATISTICS OF PUBLIC FINANCE
(Thousands of Dollars)

Revenue - Net General Revenue
Expenditure - Net General Expenditure
1952 - Fiscal Year 1952-53
Surplus * or Deficit -

	1952	1953	1954	1955	1956	1957	1958	1959 (Pre.)	1960 (Pre.)	1961 (Est.)
Newfoundland										
Expenditure	28,881	32,802	39,086	42,419	44,346	47,878	61,530	67,700	73,950	72,125
Revenue	31,734	31,641	32,851	33,534	36,870	39,479	62,381	60,170	64,200	65,030
S. or D.	* 2,853	- 1,161	- 6,235	- 8,885	- 7,476	- 8,399	* 851	- 7,530	- 9,750	- 7,095
Prince Edward Island										
Expenditure	7,064	7,167	8,822	10,343	10,094	10,766	14,388	18,500	15,385	18,085
Revenue	7,288	7,671	8,154	8,044	7,570	9,441	12,568	13,670	16,235	17,505
S. or D.	* 224	* 504	- 668	- 2,299	- 2,524	- 1,325	- 1,820	- 4,830	* 850	- 580
Nova Scotia										
Expenditure	46,464	51,254	52,638	57,688	70,756	74,474	86,336	93,300	108,600	114,300
Revenue	46,647	49,348	51,418	54,329	57,881	64,480	75,752	89,700	92,140	101,560
S. or D.	* 183	- 1,906	- 1,220	- 3,359	- 12,875	- 9,994	- 10,584	- 3,600	- 16,460	- 12,740
New Brunswick										
Expenditure	44,927	47,813	50,990	54,451	59,339	63,486	70,928	79,850	95,080	86,940
Revenue	46,555	49,220	50,788	52,783	57,335	61,616	71,007	77,320	87,425	84,810
S. or D.	* 1,628	* 1,407	- 202	- 1,668	- 2,004	- 1,870	* 79	- 2,530	- 7,655	- 2,130
Quebec										
Expenditure	313,117	310,999	349,983	399,713	433,459	493,374	533,026	600,600	748,800	804,935
Revenue	284,703	299,417	339,108	412,745	445,930	515,384	556,723	605,000	640,100	698,880
S. or D.	* 28,414	- 11,582	- 10,875	* 13,032	* 12,471	* 22,010	* 23,697	* 4,400	-108,700	-106,055
Ontario										
Expenditure	372,019	384,215	420,999	488,932	552,155	656,481	741,936	918,000	954,000	1,090,090
Revenue	364,507	370,897	399,058	431,802	481,775	594,480	647,067	772,400	829,900	910,935
S. or D.	- 7,512	- 13,318	- 21,941	- 57,130	- 70,380	- 62,001	- 94,869	-145,600	-124,100	-179,155
Manitoba										
Expenditure	42,023	46,702	48,552	51,490	62,867	75,615	97,321	[illegible]	127,750	135,575
Revenue	55,456	55,822	56,706	59,349	66,120	73,594	76,573	[illegible]	110,650	120,600
S. or D.	* 13,433	* 9,120	* 8,154	* 7,859	* 3,253	- 2,021	- 21,248	[illegible]	- 17,100	- 14,975
Saskatchewan										
Expenditure	80,187	85,783	96,145	100,781	110,132	124,353	137,513	142,900	150,270	156,500
Revenue	91,094	98,415	99,651	102,702	121,872	135,695	141,409	146,080	148,250	156,665
S. or D.	* 10,907	* 12,632	* 3,506	* 1,921	* 11,740	* 11,342	* 3,896	* 3,180	- 2,020	* 165
Alberta										
Expenditure	103,583	118,150	138,303	159,375	170,000	199,420	215,030	259,050	265,810	272,050
Revenue	144,504	185,851	175,097	225,326	241,317	246,013	236,370	208,000	245,300	259,600
S. or D.	* 40,921	* 67,701	* 36,794	* 65,951	* 71,317	* 46,593	* 21,340	- 51,050	- 20,510	[illegible]
British Columbia										
Expenditure	168,875	171,780	178,585	207,490	257,641	287,465	266,584	280,380	328,115	345,900
Revenue	185,368	186,337	199,658	230,773	273,059	281,796	295,722	312,970	319,415	333,055
S. or D.	* 16,493	* 14,557	* 21,073	* 23,283	* 15,418	- 5,669	* 29,138	* 32,590	- 8,700	[illegible]

Source: D. B. S. Financial Statistics of Provincial Governments Revenue and Expenditure. Various years.

Table 2

Government of Saskatchewan

Debentures and Treasury Bills Issued for the Period April 1, 1952 to March 31, 1962

Year	Canadian Long-term Market (Over 12 years) Amount	%	Canadian Mid-term Market (3 - 12 years) Amount	%	Saskatchewan Government Funds Amount	%	Money Market & Short-term Debentures Amount	%	Foreign Markets Amount	%	Savings Bond Market Amount	%	Total all Markets Amount	%
1952-53					2,372,000	10.60			20,000,000	89.40			22,372,000	100
1953-54	6,000,000	22.22			6,000,000	22.22			15,000,000	55.56			27,000,000	100
1954-55	20,000,000	50.25	6,000,000	15.08	1,000,000	2.51			12,800,000	32.16			39,800,000	100
1955-56			20,000,000	38.84	6,500,000	12.62			25,000,000	48.54			51,500,000	100
1956-57	8,000,000	25.74			7,325,000	23.57			15,750,000	50.68			31,075,000	100
1957-58	20,000,000	33.33					15,000,000	25.00	25,000,000	41.67			60,000,000	100
1958-59	8,000,000	10.84	5,000,000	6.78	10,800,000	14.63			50,000,000	67.75			73,800,000	100
1959-60	7,262,492	17.47	11,800,000	28.39	7,500,000	18.05			15,000,000	36.09			41,562,492	100
1960-61	39,213,387	37.12	2,000,000	1.89	22,500,000	21.30	19,000,000	17.99	9,102,914	8.62	13,829,600	13.09	105,645,900	100
1961-62	33,264,500	55.[illegible]0	2,000,000	3.32			15,000,000	24.90			10,000,000	16.59	60,264,500	100
	$141,740,379	27.63	$46,800,000	9.12	$63,997,000	12.48	$49,000,000	9.55	$187,652,914	36.58	$23,829,600	4.65	$513,019,892	100

Table 3

Government of Saskatchewan

Gross Debt by Year of Maturity (As at December 31, 1961)

Fiscal Year Ended March 31	Treasury Bills (Held by Govt. of Canada)	Savings Bonds	Debentures Canada Pay	Debentures U.S. Pay	Debentures Swiss Pay	Total
1962*	$	$	$ 2,975,000.00	$	$	$ 2,975,000.00
1963	1,193,106.23		21,255,000.00			22,448,106.23
1964	1,197,640.98		15,226,220.00			16,423,860.98
1965	1,202,294.77		8,450,000.00			9,652,294.77
1966	1,207,070.72		15,110,000.00	6,275,000.00		22,592,070.72
1967	1,211,972.04		4,520,000.00			5,731,972.04
1968	1,217,002.02		4,640,000.00	3,350,000.00		9,207,002.02
1969	1,222,164.03		6,143,000.00			7,365,164.03
1970	1,227,461.55		5,070,000.00			6,297,461.55
1971	1,232,898.13	13,426,900.00	1,000,000.00	5,800,000.00		21,459,798.13
1972	1,238,477.42			3,500,000.00		4,738,477.42
1973	1,244,203.16		11,872,000.00			13,116,203.16
1974	1,250,079.21			15,000,000.00		16,250,079.21
1975	1,256,109.50		10,000,000.00	12,750,000.00		24,006,109.50
1976	1,262,298.09		22,000,000.00	25,000,000.00	9,102,913.60	57,365,211.69
1977	1,268,649.11		10,325,000.00	20,750,000.00		32,343,649.11
1978	1,275,166.88		20,000,000.00	25,000,000.00		46,275,166.88
1979			16,000,000.00			16,000,000.00
1980	62,492.35		17,500,000.00			17,562,492.35
1981	563,386.62		39,400,000.00			39,963,386.62
1982	1,264,500.00		8,000,000.00			9,264,500.00
1984			10,800,000.00	50,000,000.00		60,800,000.00
1985				15,000,000.00		15,000,000.00
1987			5,000,000.00			5,000,000.00
1992			4,000,000.00			4,000,000.00
	$21,596,972.81	$13,426,900.00	$259,286,220.00	$182,425,000.00	$9,102,913.60	$485,838,006.41

*Debentures maturing in January, February and March 1962 only.

Royal Commission on Banking and Finance

Hearings held at

Winnipeg

Vol. 9

Date. April 9 1962

Official Reporters
F.J.Nethercut and R.J.Young
Toronto, Ont.

Winnipeg, Manitoba,
Monday, April 9th, 1962.

ROYAL COMMISSION ON BANKING
AND FINANCE

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ROYAL COMMISSION ON BANKING

AND FINANCE

Hearings held at Winnipeg,
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Chief Justice of Ontario
Toronto, Ontario - Chairman

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Queen's University
Kingston, Ontario

Mr. H.A. Hampson - Secretary

Mr. Gilles Mercure - Joint Secretary

Winnipeg, Manitoba,
Monday, April 9th, 1962.

--- On resuming at 9:30 A.M.

THE CHAIRMAN: I will now call the meeting to order.

I may say that we appreciate very much having present this morning the Premier of Manitoba. The Honourable Duff Roblin, to present the submission on behalf of the province.

I consider it a great honour to have Mr. Roblin here to assist us in this matter and may I say that we have all read the brief and find many points of interest in it which we will discuss following the presentation of the summary. No doubt there will be a number of questions that we will ask and discussion will ensue if that is satisfactory to you.

So if you will therefore proceed, I understand that you are to read a summary of your submission.

SUBMISSION OF THE GOVERNMENT OF
THE PROVINCE OF MANITOBA

APPEARANCES

Hon. Duff Roblin	- Premier
Mr. R.M. Burns	- Deputy Provincial Treasurer

HON. DUFF ROBLIN: Mr. Chairman, members of the Commission, may I first of all offer you a warm welcome to the Province of Manitoba and express our real interest in having you conduct this hearing in the province and our conviction of the vital importance of the job that has been assigned to you.

Monday, April 9th 1962

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SUBMISSION OF THE GOVERNMENT OF THE PROVINCE OF MANITOBA

Hon. Duff Roblin - Premier

Mr. R. M. Burns - Deputy Provincial

HON. DUFF ROBLIN: Mr. Chairman, members of the Commission, may I first of all offer you a warm welcome to the Province of Manitoba and express our real interest in having you conduct this hearing in the province and our conviction of the vital

May I say that we approach you with some diffidence because we are aware that in our own field of necessity it is largely a regional one and many of the things we have to say could be described as nothing more than opinion because we are conscious of the lack of statistical and factual material that we would wish to see with respect to some of the problems which interest us.

So we felt that what we have to say will be largely an impression that we have gained through our consideration of these problems and we have no inclination to be dogmatic about the suggestions we make or our analysis of the problems before you.

I do, however, feel that we will have put forward our best opinions on the problems which we are jointly interested in.

I wonder, Mr. Chairman, if you would allow me to refer to the brief itself rather than to the summary because I feel that that would be more advantageous from our point of view in presenting some of the points that are of concern. I do not propose to read the introduction which is, I believe, largely self-explanatory but I would like to read some paragraphs in the rest of the brief because there are some of them upon which I would like to make a comment as we proceed. So if that would be agreeable with you I would like to follow that course.

Taking Chapter I with respect to the financial requirements of regional development in Manitoba I think that that is a chapter which does not need to be read in full. I would merely like to say that as you can see one of the major areas of concern with us is the capital investment programme of the province and its municipalities with respect to what we term social capital. By that name we mean investments in schools, roads, bridges, waterworks, sewers, hospitals and universities and also our various credit institutions which we believe to be absolutely essential and which we believe we must carry forward regardless of other considerations, that in this field of investment as far as the

Why [illegible] say that [illegible] approach [illegible] with some [illegible] because we [illegible] [illegible] necessary [illegible] in regard [illegible] one [illegible] the things we have to say [illegible] to be [illegible] as nothing [illegible] [illegible] [illegible] [illegible] technical [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]

[illegible] we [illegible] [illegible] [illegible] will [illegible] impression that we [illegible] [illegible] [illegible] problems [illegible] we [illegible] [illegible] suggestions we make [illegible] [illegible] [illegible]

[illegible] [illegible] [illegible] [illegible] [illegible] the opinions of the [illegible] [illegible] we [illegible] [illegible]

[illegible], Mr. Chairman, [illegible] [illegible] allow me to [illegible] the [illegible] [illegible] [illegible] [illegible] be [illegible] [illegible] [illegible] [illegible] of the points that [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] them upon [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]

Taking [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] the [illegible] [illegible] does not need to be [illegible] [illegible] [illegible] you can see [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] concrete [illegible], bridges, [illegible] [illegible] [illegible] [illegible] and [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]

province is concerned we have here really left the door open for changing the programme but that as long as children insist on growing up, and they do, we are going to have to provide the schools and universities for them and that as long as our communities expand we must then bend every effort to provide those facilities by way of social capital. We also point out that we have responsibilities in the field of public untilities -- hydro and telephones. They are a large consumer and it is not pertinent to consider anything but making those investments which the extension of the demand requires; otherwise, we will not have them functioning, the communications, power and other things if private enterprise is to grow and flourish.

I think, gentlemen, all of this chapter pretty well sets out our aims in this matter. I myself found out it was of some interest to note that out of a capital requirement of some $390 million, the provincial government and its municipalities would use about one-third, $130 million, which indicates the importance of the capital investment programme in the economy of the province and our very large interest in having reasonable supplies of capital available. I will go into this in a little more detail later on.

I would like to start reading at Chapter II, if I may, dealing with requirements for balanced regional development.

> "The growth and expansion of the national economy in the Canadian Federal system must be based on the full utilization of the human and physical resources of each of the regions in the country. To date, however, economic growth in Canada has been such that optimum development within each region has not been achieved. Historically, for a variety of reasons, the economic development of Canada has tended to concentrate in the central regions while the development of the outlying regions --

[illegible] armed we have [illegible] well [illegible] does not [illegible] emerging [illegible] programme but that as long as that [illegible] growing up and they [illegible]

effort to provide these facilities [illegible] social capital. We also point out that we have responsibilities in the field of public utilities -- hydro and telephones. They are [illegible] but it is not pertinent to consider anything but making these facilities which are extension of the demand required, otherwise [illegible] have [illegible] the communications power and the [illegible] to grow and flourish.

I think [illegible] good [illegible] this [illegible] aims in this [illegible] must [illegible] for [illegible] capital requirement of some [illegible] government and [illegible] which indicates the [illegible] of [illegible] capital [illegible] in the economy of the province [illegible] a [illegible] more detail later on.

I would like to [illegible] with recommendations [illegible]

"[illegible] in the [illegible] utilization [illegible] of the region [illegible] development within each region [illegible] for a variety of [illegible] Canada [illegible]

based primarily on exploitation of primary resources -- has tended to be imbalanced. A more balanced growth of the various regions of Canada is essential.

Certainly a pre-requisite of efficiency in this area is flexibility. There is a need for any organization to meet and to react positively to change. There are many ways to an objective, some better than others. If one organizational structure or policy works well in some circumstances, it may or may not work as well in others. If we are operating a banking system in the 1960's that was essentially conceived in the 1860's, we are imposing unnecessary and unrealistic obstacles to progress.

Admittedly, the banks have changed. Their policies have shown flexibility and practical facilities have been altered and expanded. But we have to ask, "Has the banking concept -- even the philosophy of finance -- kept pace with the changing reality of mid-20th century economics? Have we come as far as is practicable with a system founded primarily on a philosophy that security was comprised of carefully protected capital? Can we continue to judge the soundness of investment in large part by the degree to which risk can be minimized?"

We suggest that our organizations for regional development must meet the need for new approaches and new techniques. We must express in these organizations new philosophy imposed by the new facts of our economic existence. The risk lies in standing still.

Responsibility will as always be a pre-requisite. In fact, what we really seek is extension -- growth -- rather than replacement of the financial apparatus. We would not

wish to lose the essential stability that has marked Canada's financial system. We have in the past accomplished much within our financial framework -- albeit with special and prolonged extra-national capital investment. Our basic approach now to the stimulation of the necessary balanced growth in Manitoba is through public investment and support, and through provision of a sound basis and climate for effective private activity.

Five critical areas in sound development of our Province are northern development, the rationalization of resource industries in settled areas, the promotion of secondary industry, rural industrialization including the provision of agricultural credit, and the special financial problems of small business enterprises.

If balanced growth is to be achieved, it is necessary that the potential profits be attractive in all sectors and for this reason enterprisers must have ready access to capital at reasonable interest rates and on terms that enable them to retain control over capital under the inevitable stresses of a development stage. It is important to remove as many obstacles as possible from the path of development.

It is the policy of the Federal Gover nment to foster and facilitate the development of the human and natural resources of Northern Canada. These northern regions constitute a vast physical and economic frontier whose development is of importance to the nation and to balanced regional and provincial economic growth. In co-operation with the Federal Government, a number of the Provinces, inluding Manitoba, have instituted similar programmes for the development of their northern regions. In fact, in terms

of actual execution of the national policy, the Provinces are the principal instruments. This is an enterprise imposing immediate and long-term obligations on the financial resources of the Provinces, with the return to be expected only over the longer period.

Mining and metal-processing activities have led to the growth of several flourishing new communities in Northern Manitoba but the region's economic resources remain only partially developed.

While it is recognized that risk capital is essential to such development of natural resources in Canada, we have not yet been able to develop those large pools of money within our own boundaries from which such risk capital can be drawn in the amounts necessary to maintain economic growth at a rate experienced since the War. The shortage of risk capital from Canadian sources for investment in resources and industrial enterprises is all the more acute in the case of investment in Northern Canada because of the special conditions and high costs of development imposed by distance, climate and terrain. The result has been a heavey dependence on foreign capital which has in turn influenced the nature and pattern of development. Such investment has been geared primarily to the [illegible] raw materials to export markets and not to the processing and fabrication of these materials. It has also resulted in the development of isolated pockets of such resources in the absence of a broadly integrated domestic industrial base.

We would urge that the Commission give special emphasis to a review of the availability, adequacy and provision of risk capital from Canadian sources for investment

in the northern regions. And by the provision of risk capital we do not mean the encouragement of unthinking speculation of the kind that has existed in past years. It is our view that the financial institutions in Canada must accept a greater share of responsibility for facilitating northern development through the mobilization and provision of Canadian savings for these purposes. The conditions attendant on northern development may well require the establishment of special funds and institutions to facilitate research and development and to supplement and encourage application from individual sources of private funds for these purposes. It is idle to object to outside capital if we are unwilling to assume the same responsibilities ourselves.

As the result of changing technologies and increasingly competitive markets, the primary industries in the more broadly settled southern areas of the Province are in a state of transition. The situation -- both economic and social -- is particularly critical in the "problem" areas of the Province -- the Interlake area, South-east Manitoba and the area immediately west of Lakes Manitoba and Winnipegosis. These are areas which were given over to agriculture prior to adoption of scientific land-use techniques and their marginal return has always been low. The effects of quickening technological change and of the depletion of both land and forest resources are most severe: Very low levels of per capita income, and labour surpluses, make local solutions difficult. The primary industries of agriculture, forestry and commercial fishing in these areas require re-organization and consolidation. As a result of these measures, the labour force employed is likely to decline further as

specialization occurs thus adding to the existing surplus labour for which alternative employment must be found.

Governments have assumed a major role in planning for the more efficient use of the resources in these areas. But the government programmes in themselves cannot achieve necessary economic development and the creation of the necessary job opportunities. There are special financial requirements and the most important of these is the need for capital on attractive terms -- and in relatively small packages -- to induce the establishment of processing and manufacturing industries in these regions. These must be industries that will utilize the indigenous labour and natural resources. The provision of this capital may -- as with northern development -- require special agencies or programmes to supplement the operations of existing public and private institutions. To complement the provision of capital on reasonable terms, considerationshould be also given to special incentive programmes for industries establishing in these areas.

Basic conditions which place persistent obstacles in the way of continuing development and growth in an area such as Manitoba are those associated with limited access to capital and with instability of control over capital by enterprisers. These factors limit entry, expansion and growth. The Government of Manitoba is concerned that promising new businesses and expanding enterprises be provided with a fair competitive position."

I will skip one or two of these paragraphs, Mr. Chairman.

" It is our philosophy that Government has a responsibility to create the conditions wherein the type of industry described will develop in an atmosphere conducive to

[illegible] thus adding to the existing surplus [illegible] for which alternative employment must be found.

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I will skip one or two of these paragraphs, Mr. Chairman.

[illegible] that Government have [illegible] to [illegible] the type of

its success. The Government of Manitoba has devoted a good deal of energy toward this end. However, both the Government and entrepreneurs interested in developing secondary industries and ancillary service enterprises in these non-urban areas have found that the policies and practices of existing financial institutions are geared to serving larger urban centres. The difficulties of rural enterprise seeking to obtain capital from the existing institutions at reasonable rates has led the Provincial Government and the local rural communities to establish their own special institutions for this purpose.

In relation to the terms of reference of this Commission, we define small business as any enterprise whose needs for equity and loan capital are too small either to interest the investment sources or to be marketed publicly. Of all secondary manufacturing industries in Manitoba, over seventy-five percent have less than 15 employees and firms with more than 500 employees account for only one percent of the establishments and less than twenty percent of total employment. When it is considered that about eighty percent of the Province's manufacturing industry serves only the Prairie regional market and that over forty percent serves only the Province of Manitoba, it is apparent that small firms will continue to have a dominant position in the economy of this region for the foreseeable future.

Enterprises in this range have no ready access to the new issue market for equity capital and have difficulty in securing term bank credit or in persuading institutions to provide debenture capital -- much less equity participation. These difficulties, we believe, are related to the smallness

of the enterprise, to the degree of risk involved and to the relative inability or unwillingness -- perhaps through lack of knowledge -- of many private institutions to make facilities and funds available to them.

While some constructive steps have been taken, institutional facilities have not developed sufficiently in Canada to supply adequate equity and loan capital to small business. Because of the lack of financing facilities, small business has only been able, on the whole, to secure equity and loan capital in an erratic, unorganized fashion. Furthermore, in the absence of a sensitive market for funds available to small business, there is no assurance that society's limited supply of capital savings is being invested where it will be most productive in a regional context. The commercial banks, finance companies and factors are doing a better job of supplying small business with short and intermediate term credit than formerly. Our concern is, however, that there are still critical problems. Much more must be done. For example, small business has greater need for long term equity capital than for loan capital. Moreover, this type of financing requires not only adequate facilities, but also special methods of determining credit rating and fund application.

The Manitoba Development Fund and the Community Development Corporations were established in an endeavour to meet in part the special small firm requirements. The Federal Government has recently broadened the lending activities of the Industrial Development Bank. The enactment of and the pending amendments to the Small Business Loans Act are other positive Federal steps.

It is our view, however, that, although the public

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sector can thus serve partially to meet the capital needs of small business, further action is required. We would emphasize the impracticality of any approach that does not make full provision for the utilization of private initiative in the solution of economic problems involving private activities. We may as public authorities prime the mechanism, but the principal thrust should be found in the stimulus of private organization, and in the sustaining energy of private enterprise. It may well be that some greater degree of co-operative effort between public and private capital must be devised.

Chapter III -- The Role of the Private Sector in Organization of Developmental Capital: In the main, there are two principal sources of investment funds in the private sector. The internal savings of industrial and commercial undertakings have provided an increasing fund through which capital expansion has been financed. The second source is that part of the savings of individuals and corporations that is available either for debt financing or for equity investment. It is on this volume of earned savings that we must depend, if we exclude the creation of credit through monetary policy and the banking system.

The Commission might well wish to consider whether or not the tendency of business to retain an increasingly large share of its earnings as undistributed profits -- ostensibly to be ploughed back into capital expansion -- has not on occasion resulted in a diversion of funds from ultimate objectives which might have been more to the advantage of the economy. This may well be one cause of excess capacity that develops from time to time in some otherwise profitable industries. It could

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be more to the national advantage economically if the judgment of the market in such matters were allowed greater play. This situation exists in limited degree only, in Manitoba, if at all. However, we are concerned, for the more capital that is diverted to uneconomic expansion elsewhere, the less there is for economic expansion here."

I think I should say, Mr. Chairman, that we approached this particular suggestion with a great deal of caution. We feel, for example, that probably the statement has little relevance to small business or medium sized business, who certainly require all the capital they can manage to accumulate, and we are not at all certain that our observations are really accurate with respect to the various large organizations as well. There might be a few to whom it applies, probably more in the United States than here, but we merely offer it as a field which could profitably be explored, but we would not like the Commission to feel we had any fixed or determined opinion on this, because in our opinion we have not sufficient facts on it other than to point it out as a field for discussion.

One of the main sources of capital for local or regional development must be in the savings of our people. With the great spread of institutionalization of savings in recent years ---

That surely, Mr. Chairman, is one of the hazards of public life, to run across a word like that.

--- this has become a restricted field in which to seek support -- particularly for small operators. Where this pool dries up, small business must inevitably suffer for, as we have noted, it is not in a position generally to use the facilities of the public issues market and must rely on private arrangements, government-supported plans, or the banking

system. The last is properly effective only in the short run.

To an increasing extent, this may account for the tendency for control of industry to concentrate. Just as we have had to face the problem of absentee control of Canadian industry from the United States, many regions in Canada are experiencing a growing loss of local control. A "branch office" climate for business is emphasized. It is one with which we are only too familiar in Manitoba.

Even were we able to form any firm impression of the extent of private capital available for investment in the Province, it would be necessary to draw some conclusions as to what choices would be made as between equity and debt investment. We would have to make inferences as to the choices between local investment and national or international direction of the available funds. These matters could profitably be the subject of a good deal more study than has been advanced to date, on the evidence of the limited statistics available. What we can say is that we believe a principal solution for problems of private regional financing is, in an important part, one of better distribution of available capital -- perhaps even more than of increased volume for investment. The problems of regional development are exaggerated and made more intense by the present capital fund distribution. We are not proposing that the Canadian economy could or should be deliberately decentralized or that size and concentration should be considered bad in themselves. But we emphasize our previous suggestions that some greater consideration must be given to the smaller enterprise attempting to operate away from the centres of financial

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control. It is our view that this is a situation with implications -- both economic and sociological -- requiring urgent consideration.

Private institutional investment sources -- which include life insurance companies, trust companies and mortgage and loan companies -- now operate under legislation which is very specific as to the nature of investments that may be made by the institutions. Equity or risk capital is actually made available in relatively small amounts, and then only to firms with long histories of good earnings. Trustee responsibilities preclude all but the strongest credit risks and consequently only large businesses have these sources of capital open to them. Under these circumstances, most Manitoba firms in the development stage cannot look to these sources for funds. We do not wish to labour this point, but it deserves consideration.

A significant criticism of the insurance companies in particular has been that they have been reluctant to take any substantial equity position. 'hey have tended to prefer safe and relatively certain investment such as bonds and mortgages. Of course, the insurance companies are limited by law as to the kind and amount of common and preferred stocks which they can include in their portfolios. Even here, however, they have frequently followed a far more conservative policy than that dictated by the legal limits and, while the factor of relative earnings will account for some part of this attitude, it is not the whole answer.

The Winnipeg investment community inevitably suffers by comparison with financial centres of Eastern Canada. The "branch office" climate is most evident and there are only

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A frequent criticism of the insurance companies in particular has been that they have been reluctant to take any substantial equity position. They have tended to prefer safe and relatively certain investments such as bonds and mortgages. Of course, the insurance companies are limited by law as to the kind and amount of common and preferred stocks which they may hold [illegible]. Even [illegible], however, they have [illegible] to [illegible] policy [illegible] by the [illegible] limits and which are [illegible] lending [illegible] part of this attitude [illegible] not the whole [illegible]

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limited underwriting facilities -- either staff or capital -- among the Winnipeg investment dealers. Here is a symptom, if not a cause, underlying the difficulty encountered in organizing private capital participation in our regional development. We are not at all sure that the barriers to improvement are not more psychological than practical. We seem to see a lack of focus on regional opportunity among private organizations. Perhaps the lack has been inevitable in the climate of financial centralization, but this is no reason why it should continue.

We readily concede that there are problems and difficulties to be overcome in any attempt to improve the organization of private development capital potential. While no quantitative estimates are readily available as to size of holding, the private investor in Manitoba may be presumed to be a significant source of potential development capital. However, an impression persists that capital held by individuals will be very cautiously committed to development. As a result, this sector is not as active as it might be in the fostering of economic growth within the Province. In many instances, the Manitoba investor prefers his Credit Union or Government Bonds -- witness the interest in Manitoba Savings Bonds -- or investment in his own enterprise, whether it be a farm or a business. The Manitoba investor has not been exposed to the same volume of mining or oil issues as have his counterparts in Alberta and Ontario -- and this may be all to the good. Still, he seems to be reluctant to take an equity position in new industrial enterprises and in particular in enterprises which have a "local industry" development flavour. Savings are often placed with national institutions whereby the money may well be applied in some other part

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of the country. We believe this reluctance to participate may be more the result of limited experience in investment matters rather than any conscious unwillingness to participate. There seems to be a fertile field for private initiative here."

Now, Mr. Chairman, I would like to say something about the chartered banking system in Chapter IV:

"The Canadian banking system has developed along traditional British lines with a strong central bank and a limited number of large, nationwide chartered banks, each with many branches. This has inevitably led to a concentration of power and decision-making in Eastern Canada where the head offices of the central bank and the chartered banks are situated. Even though there is no deliberate intention of neglecting the financial needs of the Atlantic Provinces and Western Canada, the chartered banks are far more likely to be responsive to the needs of industry in the area in which the head offices are situated.

As Manitoba is primarily an area with a very high proportion of small and growing businesses, the role of the chartered banks is extremely important to the economic development of the Province. While the chartered banks appear generally to have met the needs for short term credit in a satisfactory manner, a review of their activities in the Province, however, suggests that the following matters warrant further enquiry. We do not suggest that these comments can be unique or newly presented to this Commission. We can do no more than confirm what we would assume other regional submissions will attest.

The chartered banking system's national outlook and centralized control, and by tradition its policies and practices

in general, have not favoured balanced regional growth in Canada. The chartered banking system has been comparatively slow in adjusting to the changing needs of the various regions, particularly in respect of such a transitional economy as that of Manitoba.

The chartered banks contend that their lending policies are uniform -- that from the policy point of view there are no variations in lending activities regionally or by kind and size of industry. This uniform policy is usually summarized as being one within the limits of the banks' financial resources and commencurate with a desire to extend short term credit to any credit-worthy borrower who can provide reasonable security. It is not often made explicit that the bank's knowledge of the borrower is necessarily an important factor in determining his credit rating.

We accept the contention of the banks that they attempt to implement this policy on a uniform basis by province and industry. However, within this framework there are possibilities that the uniform policy will operate with some uneven incidence. Statistically, factors that might prove this point include the fact that the financial resources of the chartered banks are not completely within their control -- that often the dictates of national monetary policy operate to curtail their activities. The banks now operate with a 6 percent interest rate ceiling, which sometimes means that credit has to be rationed other than on a price basis. Although, with respect to small loans, there has been a suggestion that this ceiling is "circumvented" by various techniques of installment or service charge arrangement, the principle stands in that there is this basic element of inflexibility in

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in the rate structure.

The application of "blanket" policies cannot have a uniform impact in each region. For the transitional economies with a high proportion of small business, and where few alternative sources of capital funds are available, the effects are most significant. To promote balanced regional development in Canada, it is therefore important to investigate the means whereby the needs and problems of the various regions in Canada will receive due consideration in the central formulation of policies by the chartered banking system. Recognition of the fact that the requirements of the different parts of Canada are not always the same seems essential to our economic progress.

Further enquiry should be made into increasing the effectiveness of the fixed capital loans made by the chartered banks under the auspices of such legislation as the Small Business Loans Act, the Export Credits Insurance Act and the National Housing Act. Such long term financing is of particular importance to Manitoba. The present administration of these loans has been hampered to a certain extent by the lack of adequate publicity, knowledge and experience. There would seem to be even further room for expansion, particularly in the area covered by the Small Business Loans Act and in export credit financing.

We have been handicapped by the lack of statistical information in respect of the regional activities of the banking system. Just as the chartered banks advocate clearer and faster communications with the Bank of Canada, the nation has a right to expect the type of information from the chartered banking system that will enable appraisal of the effectiveness of that

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Canada is rather unique in that its commercial banks have such large savings deposits. In the United States, for example, time deposits comprise only about one-quarter of total commercial bank deposits. About one-third of the savings in that country are in mutual savings banks rather than in commercial banks. Statistics suggest that a large part of Canadian savings deposits might be terms "inactive" from the depositor's viewpoint. The Bank of Canada statistics used to carry an estimate of "active notice deposits" which comprised public notice deposits other than estimated quarterly minimum balances in personal savings accounts and non-personal notice deposits. At that time, it was estimated that roughly five-sixths of notice deposits were relatively inactive in respect of depositors' activity.

It would appear largely unnecessary for the Canadian chartered banks to carry securities of a highly liquid nature against the relatively inactive portion which, it we apply

system in serving the needs of the various regions in Canada. We would suggest that such useful data might include classification — with adequate safeguards for the confidential status of individual transactions of course — of loans by regions, by size of loan, by purpose and by size and type of borrower. Such information could be supplemented by reports from other financial institutions which are assuming increasing importance, and these in turn should be regionally oriented. At present, without adequate information, it is difficult to appraise even the limited performance permitted under present regulations and policies of the banking system as suppliers of capital for regional development in general and for small business in particular.

Canada is rather unique in that commercial banks have such large savings deposits. In the United States, for example, time deposits are only about one-quarter of total commercial bank deposits. About one-third of the savings in that country are in mutual savings banks rather than in commercial banks. Some facts suggest that a large part of Canadian savings deposits might be regarded as "inactive" from the depositor's viewpoint. The Bank of Canada statistics used to carry an estimate of "inactive notice deposits" which comprised personal notice deposits other than those carrying only minimum balances in personal chequing accounts and non-personal notice deposits. At one time, it was estimated that roughly two-sixths of notice deposits were relatively inactive in respect of deposit activity.

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the five-sixths figure to current personal savings account deposits of $7.8 billion, amounts to some $6.5 billion.

If one deducts the total of long term credit items granted under such acts as the Farm Loan Act, the National Housing Act and the Small Business Loans Act and similar arrangements and also the 15 percent liquidity reserve from the $6.5 billion odd of savings the longer term use of which depositors show no great disposition to discourage, there remains something inthe neighbourhood of $4 billion in these savings deposits quite reasonably available for longer term lending. It is suggested that some greater part of these funds might be segregated and used in part at least for long term investment in municipal and school debentures. While many of the medium sized and larger cities have no difficulty in marketing their debentures, it has been long recognized in Canada that the small and less well known municipalities experience varying degrees of difficulty. It is not that these communities are poor risks, but rather than the ordinary channels for financing municipal and school district debentures are not geared to process their relatively small and often unknown issues.

According to the 1961 Annual Report of the Bank of Canada, the estimated net increase in outstanding securities of municipal governments amounted to some $252 million in 1961. The proportion borrowed by smaller centres would not be overwhelming, we suggest. While we acknowledge the part that banks play as members of purchasing groups for municipal securities, it could be suggested that the banks would not only be doing themselves a service through investing in these relatively safe, high yield securities, but would also

be assisting Canada in expanding necessary municipal social capital. The method of uniform annual payments covering principal and interest -- the means frequently used in issuing municipal and school debentures -- is ideal for investment from a revolving fund, which the commercial banks would no doubt prefer, since they would be left free to expand or contract the amount allocated to this municipal loan purpose. If the Federal Government were to undertake to give a guarantee of the type given under the Farm Improvement Loan Act, it is possible that an agreement could be worked out whereby the Provinces would join the Federal Government in standing behind the guarantee, or by undertaking to arrange for "withholding" or "trusteeship" agreements such as are presently in effect on most Manitoba school securities.

If individual banks were to feel that the setting up of sections to handle municipal and school financing would involve disproportionate cost, they might well look into the possibility of forming, perhaps with a group of insurance companies, what is known in the United Kingdom as a consortium. Under such an arrangement the bank members of the consortium might take up the portions of the debentures issues which are of shorter duration while the insurance companies might acquire the longer maturities. An advantage of the consortium arrangement would be that regional staffs might be established to become expert on regional problems. The banks could thus gain that degree of specialization, the lack of which at the present time tends to hamper the marketing of these. With staff specialization, this very smallness of issue would become an advantage through the distribution

[illegible] Canada, in expanding [illegible] very municip[illegible] [illegible] the method of uniform annual payment -- [illegible] principal and interest -- [illegible] commonly used in issuing municipal and school debentures -- is ideal for investment [illegible] revolving fund which the [illegible] that [illegible] would no doubt prefer, since they would be left free to expand [illegible] contract the amount allocated to this municipal loan [illegible]. If the Federal Government were to undertake to give a guarantee of the type given under the Farm Improvement Loan Act, it is possible that arrangement could be worked out whereby the Provinces would join the Federal Government in standing behind the guarantee, or by undertaking to [illegible] the [illegible] "funding" or "trusteeship" agreements such as are presently in effect on most Manitoba school [illegible]

If [illegible] banks were to feel that the setting up of [illegible] municipal and school financing would [illegible] [illegible], they might [illegible] the possibility of [illegible] with a group of [illegible] [illegible] Kinnaird [illegible] corporation. Under such an arrangement the [illegible] the corporation might [illegible] the payment of the debentures [illegible] [illegible] [illegible] the larger municipalities. An advantage of the corporation arrangement would be that regional [illegible] to become [illegible] regional [illegible]. The [illegible] thus gain that degree of specialization [illegible] of which [illegible] marketing

of risk.

The consortium type of association is, of course, transitory and resembles the syndicate type of arrangement in which Canadian chartered banks now take part from time to time. However, we would envisage the formation of something of a more permanent nature so that there would be the staff advantages suggested. There exist in the United Kingdom two financial organizations which are permanent in nature and based on the consortium principle. Mention of these will be made at a later point."

We now turn to some comments about the Bank of Canada.

"It is not our purpose to attempt to inform the Commissioners of the technical workings of the Bank of Canada. Of these they will be well aware. Our purpose is to indicate the manner in which the operations of the Bank may affect the development of this Province. We will suggest some ways and means by which we believe a degree of improvement can be attained.

Essentially the Bank has two main purposes, the influencing of the economy through its function as the controller of the monetary system and as the fiscal agent of the Government of Canada. Both functions have important economic consequences for Provincial entities.

Insofar as control of the monetary system is concerned, the activities of the Bank have been directed toward the attainment of a high, broad national level of activity. We would not argue that this is not reasonable and desirable. The Bank is the creation of the Federal Parliament and is the principal monetary instrument of the national Government. Nevertheless, it is our view that the responsibility of the Bank should not be

circumscribed, but that truly national purpose requires that it give proper weight to the varying needs of the component parts of the country. In short, the Bank should -- if it is to promote a sound national economy -- consider, not only the general average of national needs, but the conditions of those parts which go to make up the nation.

We are aware, of course, that adequate attention to regional considerations -- apart from the use of moral suasion by the Bank of Canada -- would necessitate a re-organization of not only central bank activities but also of the chartered banking system in Canada. The Bank of Canada, of course, does in some measure attempt to take regional requirements into consideration in discharging its national functions. It maintains regional offices and its Board of Governors consists of regional representatives. It is our view, however, that some further degree of decentralization of central bank activities is worthy of consideration and that provision could be made for a more effective means of ascertaining and acting upon regional requirements. We are certain that, in this regard, the Commission will be examining the operation of the federal reserve bank districts in the United States.

Since the British North America Act imposes such broad responsibilities for the development of the resources of the individual Provinces upon the Provincial Governments, without corollary benefits of financial control, it would appear to be appropriate that some degree of effective financial influence should be entrusted to representatives in the region. Clearly this influence should be subordinated to the central necessities of monetary organization and management, but

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it should be possible for regional needs to be more adequately reflected in national decisions.

We note that the regional federal reserve banks in the United States are subordinate to the Board of Governors of the Federal Reserve System, but they have the right to establish their own discount rates and elect members to the Board of Governors of the system. Though, I believe these are subject to review by the Government. They also engage in extensive regional economic research both to guide their own policies and those of their members and to inform the Board of Governors of their special regional needs and problems.

The problems of regional variations of monetary policy in any national state will be recognized to be difficult ones. But it is our view that these have not received sufficient attention in Canada. It has been all too easy to be content with the statement that monetary policy is a blunt instrument, rather than make any positive attempt to find improvements, if not in the policy itself, at least in the related fields that are subject to regional discretion and control. If we are ever to overcome the unsatisfactory variances in economic activity in the different parts of Canada we must be prepared to accept measures that are not perfect, but which are at least measures that move foward the goal of more equitable and balanced regional distribution of Canada's economic wealth.

No one would dispute that, within the business framework, there are different intensities of demand at different times. No banker would consider it reasonable to apply the same criteria to every customer who sought his

assistance. It is no less true that, in the different context of monetary policy, one approach for the whole country is going to be right for some regions and wrong for others. It is, in our opinion, not too much to ask that a more concerted attempt be made to develop a workable system of regional application so that our central policy may be implemented in a more pliable way and thus more consistently with the varying economic demands of the country's different economic regions.

The secondary function of the Bank of Canada is to act as the fiscal agent of the Government of Canada. This very comprehensive activity extends throughout a substantial area of financial management, so that, in fact, the Department of Finance has now a rather subsidiary part in an important sector of this increasingly vital area of Federal Government finance. It is interesting to note that the Bank is also empowered to act as fiscal agent for the Provinces but has never as yet been willing to assume this role. In fact, on one occasion we asked them if they would, and found they were not willing to do so.

While this identity with the central government in itself may seem a logical and unobjectionable aspect of the central bank's operations -- one that is found in the practice of the Bank of England -- there is one basic point to which consideration should be given. The Bank of Canada at present is acting for one government in a federal state of eleven governments, each sovereign in its own field. The Bank's activities in such circumstances are unavoidably directed to the advantage of its principal. For this reason there has been, in our view, a noticeable tendency for the functions of the Bank as the central monetary authority to be correlated with its

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functions as the fiscal agent of the central government, regardless of how this affected the ten other authorities that comprise the over-all government of Canada. This is not to say that such single-mindedness would not exist in the Department of Finance if it held control of its own financing operations, but there would be an opportunity to condition the emphasis through an independent position of the central bank.

We do not argue here that the Bank of Canada's fiscal efforts necessarily have been wrong, inefficient or deliberately harmful to the Provinces. But it is a frequently accepted fact in financial circles that the Bank of Canada's interests have inevitably extended almost exclusively to the benefit of the Government of Canada without any particular weighing of the sometimes conflicting interest of the Provinces and their municipalities. Of late this condition has been mitigated by some greater consideration for Provincial interests, but the practical relief has been minor and may well be transitory.

It would seem essential that the Bank of Canada do either of two things. It must broaden its activities so that its fiscal operations embrace the whole field of Canadian governmental finance, without prejudice, or it should withdraw from activity associated with fiscal agency and confine its activities in relation to the management of the economy to operations in the monetary and banking system where some wider measures of control, involving credit agencies beyond the formal banking system, may be required.

While the Province of Manitoba would be quite willing to have a much closer relationship with the central bank than

function as the fiscal agent of the central government, regardless of how this affected the ten other authorities that comprise the over-all government of Canada. This is not to say that such single-mindedness would not exist in the Department of Finance if it held control of its own financing operations, but there would be an opportunity to condition its emphasis through an independent position of the central bank.

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It would seem to us that the Bank of Canada should do either of two things. It must consider its relation to the fiscal operations of the whole of Canadian government finance, without prejudice, or it should withdraw from activity associated with fiscal agency and confine its activities in relation to the management of the currency to operations in the monetary and banking system in the more wide measures of control, involving credit agencies beyond the normal banking system as may be required

is now possible, it does not seem likely, in view of past history, that this would be generally acceptable. Under these circumstances, it is our opinion that the Bank of Canada should relinquish its position as fiscal agent of the central government, at least insofar as open market dealings are concerned, and that this function should be returned to the Department of Finance. In this way the Provinces would be placed on an equal basis in the money markets, within the limits of their respective credit standings. As it is now, the Provinces find themselves involved in a purely secondary financial and fiscal operational role vis-a-vis the central authorities. The assumption by the Bank of Canada of the position of a disinterested arbiter in the field of public finance, would, we believe, be of advantage to the country as a whole."

In the next chapter I would like to deal with some of the specialized agencies of development that have been created:

"The Industrial Development Bank, organized in 1944, has moved from its original concept as a source of medium and long term funds primarily for manufacturing firms, to an organizational role designed to fill the needs of all types of business enterprise for a variety of capital purposes. The growth of the Industrial Development Bank has confirmed the existence of the gap in capital financing which it was designed to help fill and the response to the recently broadened terms of its operations is further evidence that certain sectors of the business community are still frustrated by problems of capital financing.

This in turn indicates a need for further extension in the Industrial Development Bank's approach. It is suggested,

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for example, that the industrial development agency should put its prime emphasis on economic development and not on banking. A review of loan approval by the Industrial Development Bank in the period 1956 - 1961 and the money availability during each year indicates -- in examining the year to year changes and their relationship to alternative periods of easy and tight money, and to the demand for funds over the business cycle -- that the Industrial Development Bank may to some extent have been regarded as an arm of monetary policy rather than primarily as an agent of industrial development. Such conflict between the interests of monetary policy and industrial development must be reconciled if the Industrial Development Bank is to be of optimum efficiency in achieving its developmental objectives. The activities of the development banking agency assume major importance during a period of tight money and it is difficult to justify any curtailment of these operations during such periods. If it is determined that it may be regarded by its parent, the Bank of Canada, as an agent or arm of monetary policy then a revision in policy is required, perhaps to the point of a structural separation of the two agencies.

A second suggestion concerning the Industrial Development Bank involves the need for the identification of the Bank's branches with the special interests of the regions and the Provinces' in which they are situated. In common with many other financial institutions, the Industrial Development Bank seems to suffer from the "branch-office" climate. By this, we mean that the personnel in regional offices tend, of necessity, to regard their activities as of a branch operation type, directed from the centre with uncertain local influence

for example, that the industrial development agency should put its prime emphasis on economic development and not on banking. A review of loan approvals by the Industrial Development Bank in the period 1956 - 1961 and the money availability during each year indicates -- in examining the year to year changes and their relationship to alternative periods of easy and tight money, and to the demand for funds over the business cycle -- that the Industrial Development Bank may to some extent have been regarded as an arm of monetary policy rather than primarily as an agent of industrial development. Such conflict between the interests of monetary policy and industrial development must be reconciled if the Industrial Development Bank is to be of optimum efficiency in achieving its developmental objectives. The activities of the development banking agency assume major importance during a period of tight money and it is difficult to justify any contraction of these operations during such periods. If it is important that it now be regarded by the government, the Bank of Canada, or an agent or arm of monetary policy then a revision in policy is required -- perhaps to the point of a structural separation of the two agencies.

A second important concern of the Industrial Development Bank involves the need for the identification of the Bank's branches with the special interest of the regions and the Provinces in which they are situated. In common with [illegible] the Bank seems to suffer from the "branch-office" climate. By this we mean that the personnel in regional offices tend, of necessity, to regard their activities as of a branch operation

on judgment or policy.

While the Industrial Development Bank has generally allocated its funds fairly among the regions of Canada, there is not that maximum of decentralization of decision-making necessary to make the allocation fully effective. There is a need for more flexibility in order that the regional offices may identify more closely with local needs and special problems. As we have stressed, each region has unique characteristics which cannot be equitably met by a national set of rules. The regional offices of the Industrial Development Bank should play an integral part in the provincial and regional industrial development programmes and should integrate with the programmes and the business communities in each area.

A third suggestion to the Commission is that the role of the Industrial Development Bank should be reviewed in relation to the various provincial industrial development agencies which have been established. The Manitoba Development Fund and the Community Development Corporations in this Province have indicated that the gap between the supply institutions and the firms seeking funds is wide and that new institutions and changed terms of reference for the institutions already in the field are required. The Commission might wish to survey this gap and perhaps suggest added terms of reference for the Industrial Development Bank and other agencies. Furthermore, the Industrial Development Bank, as the senior and most affluent of the specialized development financing agencies, should carry out a continuing scrutiny of the business sectors in co-operation with the other Federal and Provincial industrial development and development

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financing agencies, to ensure that, through direct action or assistance to these other agencies, the needs of business are met so as to foster the optimum development of each region of the country. Another way in which the Industrial Development Bank might assist the provincial lending agencies and industrial development agencies is through establishing access to the research studies which are carried out by the Industrial Development Bank head office and branch office staff. The release of these reports would save extensive duplication of effort and would lead to the development of more effective research techniques. The industry-wide and general feasibility studies could be exchanged without breach of confidence and the reports on specific projects could be exchanged on a confidential basis by the loan agencies as responsible credit sources.

In summary, it is our opinion that the Industrial Development Bank, as a pioneer in filling the gap between traditional suppliers of capital and business enterprise seeking capital, has performed a most useful function. But much still remains to be done if such economic growth is to take place in Canada as will achieve optimum utilization of our natural and human resources. We require every aid to the strength and stability of a balanced regional growth. The Industrial Development Bank should function as an agent for industrial development and not as an arm of monetary policy if it is to perform its role most effectively. Furthermore, the Industrial Development Bank should operate not as a series of branches governed by an eastern head office but rather as a federation of nationally sponsored regional agencies. Finally, the role of the Industrial Development Bank as a

financing agencies, to ensure that, through direct action or assistance to these other agencies, the needs of business are met so as to foster the optimum development of each region of the country. Another way in which the Industrial Development Bank might assist the provincial lending agencies and industrial development agencies is through establishing access to the research studies which are carried out by the [illegible] staff. The release of these reports would save expensive duplication of effort and would lead to the development of more extensive research techniques. The industry wide and general feasibility studies could be exchanged without breach of confidence and the reports on specific projects could be exchanged on a confidential basis by the lending agencies as responsible credit sources.

In summary, it is our opinion that the Industrial Development Bank has been of assistance in filling the gap between the [illegible] and investors otherwise seeking capital. It has performed a most useful function. But much still remains to be done in our province [illegible] to achieve optimum utilization of our natural and human resources. [illegible] is essential to the strength and stability [illegible] growth [illegible] the Industrial Development Bank should function as an agent for industrial development and not as an arm of monetary policy if it is to perform its role more effectively. Furthermore, the Industrial Development Bank should operate not as a series of branches governed by one central office but rather as a federation of regionally sponsored regional agencies.

national industrial development institution should be altered to make possible direct co-operation with the provincial and community industrial development funds.

The Manitoba Development Fund was established in 1958 because it was felt that many potentially profitable business operations were hampered or prevented from successful operations because of a lack of capital. In its 3-1/2 years of operation, the Fund has approved and extended loans of approximately $10 million to all types of manufacturing and processing operations as well as to tourist operations. Over two-thirds of the loans are in rural Manitoba, indicating the particular needs of rural industry. The experience of the Manitoba Development Fund has indicated that many sound small business loan opportunities exist and that without such special institutions, many small firms could never have been established.

A provincial loan agency such as the Manitoba Development Fund can perform a valuable function since it is close to the needs and operations of the local business community. It has both direct and indirect benefits of economic development foremost in view. In having a regional board of directors, it can make rapid decisions with immediate knowledge of the factors involved. A further advantage of such agencies is that since they are seeking the benefits of employment and economic growth rather than return, above recovery, on investment, they tend to perform more extensive advisory services. Such agencies also have the advantage of being closely allied with the industrial promotion services of government.

To make provincial agencies such as the Manitoba

Development Fund more effective, the Federal Government, through the Industrial Development Bank, might participate in such proven agencies through the provision of equity or other capital. This step would greatly increase the effectiveness of such provincial agencies when it is recognized that they might also reach a stage at which they could sell their obligations in the normal credit markets or to local financial institutions which have an interest in the economic growth of the region.

As one means of fostering the objective of economic diversification -- particularly in the rural areas -- the community development corporations were conceived in Manitoba as self-help institutions. These agencies raise equity or other capital locally for the purpose of providing physical facilities for industrial firms. Assistance may be obtained from the Manitoba Development Fund on a loan basis for the purpose of a specific project. In addition to financial assistance, technical advice is sought from the Fund.

Community development corporations are particularly effective in small communities of generally less than 5,000 population. They act to muster local capital -- normally diverted to national institutions for the benefit of other areas - to be used for local development purposes. The funds raised locally have, to date, been used both for small business establishments of local entrepreneurs and for small firms attracted from outside the community. In those communities of more than 5,000 population, a new form of institution to parallel the community development corporation may be required to supplement the efforts of the existing institutions

Perhaps what is needed in Canada is an organization

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> along the lines of the American Research and Development Corporation (A.R.D.) to provide risk capital. A.R.D. was incorporated on June 6, 1946, in Massachusetts. It is a closed-end non-diversified investment company of the management type. The company is a financial vehicle through which individuals and institutions may participate in a wide range of venture capital enterprise. The firm does not merely invest in the ordinary sense; rather it seeks to "create and develop" by taking calculated risks in selected companies which it believes have good possibilities, aiding them with both capital and management consultation."

The next paragraph has to do with the two financial institutions in the United Kingdom: The Finance Corporation and the Industrial and Commercial Financial Corporation, which we believe may have some application here, and commend them to your study.

> "Basically, all that financing is meant to accomplish is that smooth transmission of money from those who have it to those who know how to use it. If financial institutions and instruments do not achieve this purpose, if new savings are continually channelled into portfolio securities or what one member of the Canadian Senate referred to as "the enterprise and vision of preceding generations", then it is obvious that our financial intermediaries are not performing their proper function and that renewed demands for massive monetary injections by the Federal Government and central bank will not solve the structural causes of stagnation and unemployment.
>
> Encouragement of new firms today is impeded by the structure of our financial institutions. Normal growth requires permanent or long term capital. Our banking

institutions on the whole handle the demands for working capital and our investment community provides access to capital markets at reasonable cost for large amounts. But at the intermediate range, precisely at the point where new firms may enter into optimum growth, the sources of funds are relatively few and general inadequate. We must be concerned with the continued investment of Canadian savings as the basis of development. Savings must be more readily enabled to serve an equity position or to provide long term funds in support of new firms and ventures. This will provide the intermediate support now lacking.

We in Manitoba have recognized another special need of our own economic community with the establishment of the Agricultural Credit Corporation."

And then, sir, the next few paragraphs indicate the activities of these corporations which I shall not read to you.

"A brief study of credit facilities in North Dakota and Minnesota was made by the Corporation last fall. It was found that many of the banks in that area were employing agricultural graduates to handle their agricultural loans. Reports received indicated that each year more banks were initiating this practice. If this system is proving a success in the United States, it should be worthy of consideration in this country.

There are indications that in many cases there is now reasonably adequate credit available to agriculture. The problem is to ensure that this credit is put to its best possible use. The farmer must be an efficient, well-informed manager and the suppliers of credit must be able to give him sound advice. The study of credit facilities in North

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of the intermediate money, precisely at the point where new firms may enter into optimum growth, the sources of funds are relatively few and general inadequate. We must be concerned with the continued investment of Canadian savings as the basis of development. Savings must be more readily enabled to serve an equity position or to provide long term funds in support of new firms and ventures. This will provide the intermediate support now lacking.

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[illegible]

Dakota showed how assistance in this direction could be considered. In recent years livestock meetings have been held in the fall, preferably in livestock auction markets where different types of cattle would be on hand. All the main suppliers of credit and livestock extension personnel are invited to panel discussions with the potential borrowers. The officials in North Dakota believe these meetings have increased the availability of credit as both the farmer and the supplier have come to know more about each other's business and the problems involved."

I would not like to pass this paragraph without, however, noting that in many instances managers of our branch banks as a rule have been in their positions for some considerable period of time and in this case I think we find a considerable amount of expert knowledge of agriculture with these men and I have no doubt this is of great use when they come to deal with those who wish to borrow money from them.

I would now like to continue:

"There is one important exception to the statement on the general adequacy of present credit supplies. The amount, terms and conditions of intermediate term credit available for the livestock farmer is inadequate. This shortcoming can well retard the growth of our livestock industry -- the brightest area for increased farm production -- unless we improve the situation. It should not be too much to hope that an answer can be found through a closer liaison and co-operation between the Federal and Provincial Departments of Agriculture and the financial community.

We have used the operations of the Manitoba Agricultural Credit Corporation as a Manitoban example to indicate how a specialized public developmental agency

Dakota should how [illegible] considered. In recent years, livestock meetings have been [illegible] [illegible] livestock [illegible] markets where different types of cattle would be on [illegible]. [illegible] [illegible] of credit [illegible] [illegible] [illegible] [illegible] [illegible] with the [illegible] [illegible] in North Dakota [illegible] [illegible] have increased the availability of [illegible] both [illegible] and [illegible] supplies have come to [illegible] [illegible] [illegible] and the [illegible] [illegible]."

I would not like to pass this [illegible] without, however, noting [illegible] [illegible] [illegible] North Dakota [illegible] have been in [illegible] [illegible] for some considerable portion of [illegible] and in this [illegible] [illegible] [illegible] considerable amount of experience [illegible] of agricultural [illegible] and I have no doubt [illegible] of [illegible] when they come [illegible] [illegible] to [illegible] [illegible] [illegible] to continue.

There is one important exception to the [illegible] of the general adequacy of present credit supplies. That [illegible] [illegible] [illegible] conditions of long [illegible] [illegible] [illegible] livestock farms is [illegible]. This [illegible] [illegible] the growth of our livestock [illegible] [illegible] [illegible] production [illegible] the situation. [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] between the Federal [illegible] [illegible] [illegible] [illegible] credit community.

[illegible] [illegible] the [illegible] [illegible]

[illegible] [illegible] [illegible] [illegible]

can foster activity in a specific sector of the private economy. It is an object worthy of consideration in other sectors, we feel, but there are very real limits to the Province's financial abilities in this regard.

The federal agencies specializing in the supply or promotion of developmental capital also follow the precept that the financing of economic growth by government agencies is intended to supplement -- not to compete with -- the various private institutions. In most instances, the routine financing operation is performed by the chartered banks, life insurance companies and other institutions, with government acting as a guarantor or insurer of funds advanced from private sources. As a consequence, government developmental financing policy in the federal area is guided to a large degree by the policies of the private institutions. We have already noted that the latter have not yet adjusted their policies sufficiently to take care of Manitoba's needs for capital.

The Central Mortgage and Housing Corporation, the Export Credits Insurance Corporation, the Small Business Branch of the Department of Trade and Commerce, the Farm Credit Corporation, the Farm Improvement Loans Division of the Department of Finance, and the Depreciation Certification Division of the Department of Trade and Commerce all fulfill specialized roles in the organization of financial support for private economic activity, largely based on private funds with public underwriting or direction in some degree. Each has carried out a useful and needed function in the promotion of private enterprise and initiative. But all in all, the combined effect has left much to be done.

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[illegible]

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Now, in Chapter VII, Mr. Chairman, I deal with some of the policies that we think should be considered in the context of regional development.

"The days when the development of an area could depend upon the will and labour of adventuresome individuals are, unfortunately, not ours. Development now must depend for success largely on many skilled entrepreneurs and adequately organized amounts of venture capital. While to an important extent the availability of funds will depend on broadly applicable credit policies, there are many local factors which may exert important influences on availability.

The credit requirements of a relatively undeveloped area are both different and more demanding of special attention than those of a capital intensive sector. The inducement of southern Ontario will not be found in rural Manitoba, and even in Greater Winnipeg there are basic differences in need and opportunity for capital investment when compared to the Ontario industrial complex. Although the compensating factors may be there for the seeking, Manitoba can not now compete on the same terms with Ontario for developmental or risk capital. It seems clear, therefore, that no one credit policy is going to be wholly satisfactory in every part of the country at all times. Restraint that may be necessary in a booming economy in one region may put an unfair and additional burden on business in an area where economic activity is not at an acceptable peak. To the extent that these views can be taken as valid conclusions, there would seem to be a reasonable argument for some greater flexibility in our credit system.

While this may lead logically to a conclusion that we

with some of the policies that we think should be considered in the context of regional development.

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espouse regional monetary policies, we are frank to say that we do not know of an effective way in which these can be created. Unavoidably, if reluctantly, we come to the conclusion that any action of significance -- for the immediate future -- must be channelled through the control of credit policies. Such controls could be specifically adjusted, however, to particular demands or needs.

The idea of direct economic controls in peace-time is not widely popular in Canada -- and I might say nor with us. Perhaps it is possible to achieve much of what we consider necessary through persuasion rather than through law. For example, a differentiation of interest rates by area would be a possible approach. The banking system is at present limited in its operations by the statutory ceiling of 6 percent for interest. This interest rate variation would be difficult to devise and more difficult to control. It is one approach, however, that must be considered.

Mor practicable, perhaps, would be a pre-determined policy for lending institutions whereby excess activity in one area could be dampened while at the same time activity in another sector could be actively stimulated. Such an approach would probably call for co-operative action and some changes in administrative and polich approach would undoubtedly be required of participating institutions. The difficulties that might be encountered through attempts at co-operative control might well seem lesser evils than the devel-take-the-hindmost philosophy of our present system.

One aspect of the developmental financing situation that has to be fully appreciated is that the local pools of

small capital which not too many years ago could be relied upon to support enterprise are no longer as readily available. It is not long since every many of any substance was seriously concerned with accumulating a fund of his own for his days of retirement. These funds were available for investment on a local basis.

But this situation no longer holds to the same extent. At least, the pools do not tend to remain as localized. The total of investment capital may well have expanded greatly, but we believe that the residual part still in private hands is not big enough to overcome by its own weight the diversion of local investment funds into institutional hands and into national channels. It is a matter that must be given attention in view of the resulting emphasis on the part that institutions and other group investors play in the country's development. We have, through the community development corporations, proved that the local reserves of capital are still available -- but only when a positive effort is made to organize and focus their potential on the indigenous community enterprise.

Over the longer term, the main lending institutions which now control so much of investment capital should be encouraged to appreciate their responsibilities in the matter of economic development. The security consciousness of the institutional investor is understandable and necessary, and is in fact encouraged by law, but there does seem to be good reason to suggest that some greater weight should be given to the needs of smaller enterprise struggling for recognition and success. It is too easy to continue to support established enterprise in the larger centres of economic activity. Perhaps formal acknowledgement could be given in the application

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C[illegible] [illegible] encouraged [illegible] greater weight [illegible] true to support establishment

of institutional funds to having some predetermined percentage of the total pool committed to these smaller risk-taking ventures.

The alternative to some greater flexibility in the private sector involves direct governmental intervention in the credit aspects of development. Here the problems and the solutions are more direct for governments have a primary interest -- and often a basic responsibility -- in the correction of regional imbalance. As we have noted, the investment instrument of the Bank of Canada -- the Industrial Development Bank -- has made some limited attempts at variation in policy emphasis over different parts of the country in line with regional developmental needs. Whether this has been sufficient is another matter.

The part of provincial governments has been of greater emphasis. Through various agencies and in a variety of ways, funds have been supplied where normal lending institutions held aloof. It may be inevitable that the Provinces should become involved in regional credit policy creation in this way. But public responsibility for the over-all creation of credit necessary to finance this country's growth is fundamentally that of the Government of Canada and of the financial institutions it establishes.

It would seem apparent, from the increasing activities of provincial credit authorities, that the funds available for legitimate demands for credit are not being properly distributed. We have given much emphasis in this respect. It is logical to assume that a greater attention to regional needs by the ordinary financing and banking media would leave the provincial

[illegible] local and [illegible] there [illegible] risk-taking [illegible].

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[illegible] would seem appropriate [illegible] the [illegible] credit [illegible], more funds would [illegible] not being [illegible]. We [illegible] [illegible] by the [illegible]

governments responsible only for the marginal enterprises -- which would be more properly their role.

We have on previous occasions referred to theproblem of attracting a sufficient volume of savings into investments in provincial and municipal securities at reasonable rates of interest.

It is generally conceded that much of the increased burden of public improvements has fallen on the provinces and their municipalities. And I refer again, sir, to the one-third of the capital investment in this province being of that nature. We have looked at the methods employed in the United States in our efforts to reach an answer to this need. There, income tax exemption of state and municipal securities is enjoyed as a constitutional privilege and the effects have been quite startling. In Canada it would be a matter for Federal-Provincial co-operation.

There are certain obvious disadvantages to this proposal, but we think that the need for large amounts of social capital, particularly in the smaller local jurisdictions, merits a good deal more serious consideration of the idea than has been given it in Canada to date.

We are not alone in this view. In 1958, the President of the Royal Bank of Canada, the late Mr. James Muir, in his Annual Report gave support to the idea as did the Supervisor

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of Investments of the Bank of Nova Scotia in October, 1959, at the Annual Conference of the Institute of Public Administration of Canada. We recognize, as they did, the difficulties, and we do not urge indiscriminate use of the device But we do feel that the end results would justify further consideration of its value in providing funds for schools, hospitals, universities, sewerage and water systems, roads and other forms of essential works.

As a possible alternative or supplement to the latter proposal, we have also suggested that thought be given to the extension of the "dividend credit", as provided in the Income Tax Act of Canada, to similarly restricted classes of provincial and municipal securities. We acknowledge that this originally was a means of off-setting some measure of double taxation of income earned from corporation profits. Actually, we suspect that a main purpose has been to encourage investment in Canadian equities. Therefore, if we accept that a basic purpose of the "dividend credit" has been to encourage investment in Canadian growth, we should have no real difficulty in accepting the logic of its extension into the field of provincial and municipal investment.

The idea of regional taxation differentiation for stimulation of development has not

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in October, 1959, at the Annual Conference

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of income as well as [illegible] tax [illegible]

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[illegible] idea of regional taxation differentials

been well received by the Federal Government in the past, but there seem to be good reasons why the effect of fiscal policy in regional development should now be given greater attention. It has become accepted practice, in the Federal system, to give special concessions to resource industries -- for example, mining. There seems to be nothing illogical or impracticable in similar concessions to new industries in areas where development must be encouraged. Recovery of initial investment is important in both instances, and a tax-free period such as that granted to mines might be an important influence in broadening our industrial base. We suggest this approach as one that can be usefully explored.

While we have attempted to confine our remarks to the banking and financial aspects of the problem, it is not possible to neglect fiscal policy as an element in the problems that we face. One cannot be unimpressed by the rising concern in this country as to the unco-ordinated growth of our systems of taxation. While each tax in itself may usefully serve a purpose through its contribution to the provision of necessary public services, we do not seem to have any real knowledge of the over-all economic effect of the various tax systems when taken in their total effect.

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[illegible] each [illegible]

concern itself only with its own financial needs. It must look to the effect of its policies on the economic life of the country, not in isolation, but as part of the fiscal system prevailing for the nation as a whole. These policies unavoidably are closely influenced by and linked to the activities of other governments. With the formal controls which prevailed over much of the Canadian tax structure now removed with the end of the tax rental agreements, it is more important than ever that we should give increasing attention to the co-ordination and co-operation necessary to stimulate and maintain the highest possible level of economic activity.

As we noted earlier in this submission, it may well be that the Commission will consider that the problems of taxation policy in Canada are beyond the scope of its responsibilities. If that is so, we can only urge that influence be exerted in drawing to the attention of all concerned the growing urgency of the need for a detailed examination of this whole question in the context of our present and future economic problems.

We believe that, before fundamental alterations in the financial and credit structure should be undertaken, there must be a thorough review of our entire fiscal structure. Without reference to the fiscal

[illegible] its own [illegible] must look [illegible] particular [illegible] system [illegible] these policies [illegible] largely [illegible] and [illegible] of [illegible] With [illegible] which [illegible] over much of the [illegible] we now [illegible] with the [illegible]

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[illegible] in this [illegible] it may well be [illegible] consider that the problems of [illegible] policy in [illegible] beyond the [illegible] urge that influence be exerted [illegible] the [illegible] question [illegible]

[illegible]

framework these changes could be irresponsible and without ultimate effect."

I hope, Mr. Chairman, you will not interpret that remark so strictly as to preclude making your recommendations when your Commission has completed its deliberations.

The next paragraph there, No. VIII, deals with the need for better research and particularly is slanted towards regional credit and development and I indicate the way in which Ithink it would be improved at the present time.

We point out the way in which the Federal Reserve Banks in the United States operate within regional areas, there is a good deal of that sort of thing and we think that it might provide a useful example for us here in this province.

We feel that a good deal of our difficulties stem from the imprecise efforts which are expended with respect to many of these problems. In trying to work this brief we have been struck, some of us, with how little we know about some of these things and how much we are limited and circumscribed. There is another part of this chapter I would like to make specific reference to and that is paragraph 10 on page 26.

"If capital funds are to be employed most effectively to promote growth of specific enterprise and the sound development of the regional economy, we must first overcome a general lack of regionally focussed economic,

marketing and organizational research.

In the more highly developed and industrialized areas of Canada much research is generally carried out by established business enterprise, by independent private consultants who work on a retainer or fee basis, by a wide variety of financial institutions and by the larger scale of governmental department and agency programme that a wealthier community can better support. In our region, these research facilities are not fully available locally. The small and medium sized enterprises characteristic of the region do not possess the means to provide these services.

Greater participation by national and institutional bodies in market research, product and technical research and financial analysis could reduce the exploratory costs for small-scale business. Where the distances make freight and shipping problems so critical, accurate appraisal of markets can be essential to the success of a new enterprise. If small business is to be successful in the use of new capital, such research and advisory assistance must be provided to a degree which conventional financing institutions do not at present offer.

Traditionally, the financial and investment institutions in Canada have been

passive in respect to regional industrial development. For example, although the commercial banks and the Industrial Development Bank have research sections or departments, in every case are located in central Canada at or near the head office of the particular institution. Most of the research done by such institutions is very general and is geared to the central region. Even less information is actually made public. Most commercial banks and related institutions do have what are termed business development officers, but for the most part these officials work in the public relations field.

We would draw the attention of the Commissioners to the research and development role of Federal Reserve Banks and commercial banks in many parts of the United States. Each Federal Reserve Bank, we understand, has a large research staff, some of whom work on aspects of urban and rural economic research and on matters relating to the general economic development of the region concerned. This information of a public service nature may not be of direct interest to the banks themselves, but it is of interest to entrepreneurs hoping to locate plants or expand operations in the area. Assistance is provided in locating executive manpower, technicians and specialists. Market studies and information in the

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bank's research library are made available. Information on suppliers and business contacts in other cities or states can be located through the banks. General advice on underwriting procedures is available. Assistance in setting up unusual payment or credit instruments for special situations is provided. Counsel on the selection of accounting and other professional service firms is offered. Under the American unit banking system, such assistance is concentrated on developing specific localities and regions.

We would suggest that Canadian financial and monetary institutions concentrate much more than they have in the past on specific regionally-and firm-oriented development research. This work could be reinforced by regionally oriented data supplied by the Bank of Canada or the Industrial Development Bank.

It has also become evident that there is a need for co-ordination and exchange of data and information. All Provincial and Federal bodies and institutions have a responsibility here. At the present time, the main governmental responsibility for industrial development rests with the agencies of the Provincial Government, but access to reports of Federal agencies could lend far more efficiency. In short, for any attack on the financial and related aspects of our present development problems, we must

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correct the lack of reliable and usefully compiled information. We have become critically aware that we can say far too little with respect to the exact dimensions of our problems although we are fully cognizant of their general nature and seriousness.

There is a lack of understanding generally as to the value and meaning of such information as may now be available. We would hope that as new data were acquired that these would be made widely known so that all interested bodies could act upon the sound foundation of accurate and mutually held knowledge. Finally, we suggest that there is a need far greater use of special administrative and organizational techniques now applicable in conjunction with data-processing and other quantitative information handling equipment. This last is often well beyond the means of small individual economic units. We should like to see a pooling of the national and regional information resources to make available to the smaller units the basic data applicable to their own regions. This would give regional focus to the best techniques for acquiring new economic, business and administration information and the skill based thereon.

Knowledge is surely the key here as in so many other areas. We cannot assume that it will automatically become available. It

must be organized -- by all interested elements in the community and not merely by Government and the larger units of enterprise. We have found that the virtues of self-help are too often lost sight of. We also know that a particular difficulty for a developing economy is that there is little reserve to cover false starts. We cannot afford inefficient use of those financial, material and human resources available. Knowledge, as we see it, is the answer -- knowledge verified by research, organized for understanding, and properly disseminated for maximum effect.

The effective treatment of our various economic and financial problems will not come easily. It will require the utmost in co-operative effort not only between governments but between the public and private sectors as well. We have suggested on other occasions the establishment of a National Economic Advisory Council on a joint Federal-Provincial basis. As we see it, the prime function of such a body would be to establish immediately a national committee on a continuing basis with the responsibility for advising the governments of Canada on the economic problems facing them and the possible methods available for dealing with these problems. It would not be an executive body that could in any way usurp the powers of

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government, but rather it would make available to all governments concurrently the best advice available from all sections of the community.

In some such manner, the knowledge we consider essential might be circulated and used in a more intelligent manner than would otherwise be possible. A National Economic Advisory Council would well be the "middle-man" in the dissemination of information from source to those requiring information and technical knowledge beyond their immediate means. The framework of nationally focussed knowledge may well be a prerequisite to the optimum development of our financial machinery for regional growth."

That, Mr. Chairman, concludes our formal presentation on this subject. We have expressed, as you can see, the problem as it appears from our point of view, considering, as I think it is our responsibility, the needs of the region which we represent

We appreciate that you have the task of combining these conflicting pieces of advice that you receive from various regions into a coherent whole that is capable of being soundly managed. We have some slight idea of the complexity of that task. We can only wish you well in what is a most difficult and important undertaking.

[illegible] sent but [illegible] If you [illegible] have ove [illegible] ble [illegible] give [illegible] carry the bes advice available [illegible] community.

In some [illegible], the knowledge we consider [illegible] might be collated and used in a more intelligent manner than would otherwise be [illegible] Agricultural Economic Advisory [illegible] the "middle-man" in the dissemination of information [illegible] requiring information and technical knowledge beyond that [illegible] The [illegible] of [illegible] knowledge may well be [illegible] development [illegible] growth.

[illegible] this [illegible] we have [illegible], as you can see, the problem [illegible] approach from our point of view [illegible] I think it is our [illegible] the [illegible] of the region which we represent.

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THE CHAIRMAN: Mr. Premier, we very much appreciate your very interesting and valuable presentation this morning.

We generally break off for about 10 minutes at this stage in the morning, and if you are available after that for our discussion and questioning we would appreciate that very much also.

HON. MR. ROBLIN: Splendid.

THE CHAIRMAN: We will now adjourn for about 10 minutes.

--- Short Recess.

THE CHAIRMAN: We will resume. Any questions?

COMMISSIONER LEMAN: Premier Roblin, in the early paragraphs of the brief, you have explained quite at length that you would vote for a system which would encourage regional development, and you point out the regional difficulties that this province has; but, as you well pointed out at the end of your presentation, we have to look at the problem of Canada as a whole.

Now, there are people, well informed people, in Canada who have argued, especially in recent years, that Canada itself as a whole has not achieved that balanced economy you speak of, so that there is a question of emphasis here that comes up.

Do you think that we should put the emphasis on creating a balanced economy by regions, or look for greater efficiency in the country as a whole and, through specialization, make Canada as a whole more competitive through balancing on a national basis?

THE HON. MR. ROBLIN: Well, I think that the problems really go hand in hand. I certainly agree with you that we have to look to the national situation and our position in the world trading community; and I agree with you that there may be a great deal we need to do in improving the structure of Canadian economic organization to meet the competition that we are facing and we are facing increasingly with the rest of the world, and that our national policies must be devised with that in mind.

I think that is quite correct to take that attitude, but I think that probably greater emphasis on regional development can assist that process, because I am really not suggesting that we should do anything in regions which is basically unsound from an economic point of view. I do not think we should try to stimulate or encourage that sort of activity, which could not, when fully fledged, stand on its own feet or fend for itself in the country as a whole.

What I am merely saying, I think there are many opportunities for promotion of that kind of activity within the regions which are now not being recognized, and that one of the reasons perhaps is because of this centralized view as opposed to the regional view.

I am going to say something else. I wonder we in the regions have done all that we can in respect of this matter. The fact of your Royal Commission coming here has stimulated us to think of this problem, and we know very well that we have a larger responsibility than

that of merely listing our woes with a group such as this one here. It seems to us that perhaps we in the regions could do more to help ourselves. We have made some start in that direction with our Development Fund and with our Community Development Corporations which we have encouraged in the smaller centres with some success, but I am wondering whether we in the regions ought not to perhaps examine our own position with the financial agencies in the regions, to see whether our own rules and regulations are flexibile, and whether there is anything that we have left undone with respect to making the best use of the financial resources of the region itself.

One of the things that we certainly intend to do when we are able to arrange it, is to consult with the institutional people in Manitoba, with the investment industry, and perhaps with the bankers, and review with them some of the points that are of concern to us, and see whether we cannot in our own regions and on our own initiative, improve the flow of capital for various purposes mentioned. I really think we ought to contemplate such an internal view of our situation.

However, to get back to your point, I think that the two goals are really complementary. I really do not see a conflict between the two of them. Also I certainly recognize the national problem that you refer to

COMMISSIONER LEMAN. Next, Mr. Roblin, your brief points out -- and it is quite helpful to get a notion of the size of the problems for capital raising

[illegible] of merely listing our views with a group such as this one here. [illegible] positions we [illegible] have made some [illegible] up that [illegible] with our Development Fund and with our Community Development Corporations [illegible] we have encouraged [illegible] in the [illegible] with some success [illegible] I am [illegible] another [illegible] [illegible] with the [illegible] agencies [illegible] own rules and regulations [illegible] flexible [illegible] and whether there is anything [illegible] we have [illegible] working [illegible] the [illegible] of the [illegible]

[illegible] to do when we [illegible] the [illegible] institutional [illegible] with [illegible] industry [illegible] and [illegible] with [illegible] and see what [illegible] our [illegible] various [illegible] purposes [illegible] contemplate [illegible]

[illegible] that the two [illegible] completely [illegible] do not see [illegible] between [illegible] [illegible] that you [illegible] relate [illegible]

[illegible]

[illegible]

in the Province of Manitoba -- you refer to about $400 million being needed for the public and private sector per year in the next few years. Do you foresee that the private and public sectors in Manitoba will have difficulty in raising that much?

HON. MR. ROBLIN: I cannot speak for the private sector because I am limited in my knowledge of that field, but I think that there will be no doubt that the public sector can raise the amount of money that it requires.

I say that because the type of investment that the public sector is concerned in is one that we have no choice but to make.

That is one of the things that bothers me about the rate of interest, for example. This really does not discourage a province very much if the rate of interest is high, simply because they have no recourse but to get the money and to make the investment.

For example in our Hydro Electric System here we are building a plant that is going to cost us about $130 million before it is through and at the mouth of the Saskatchewan River, Grand Rapids where it falls into Lake Winnipeg. It is an investment that has to be made. If we do not make it at Grand Rapids, we make it some place else, and the same applies, for example, to the item of interest rates. You have your choice to develop, whether it should be the same or whether it should be higher, but it does not really have much effect. You have to make the investment anyway.

The same thing with schools and roads and

in the Province of Manitoba -- you refer to about $400 million being needed for the public and private sector per year in the next few years. Do you foresee that the private and public sectors in Manitoba will have difficulty in raising that much?

HON. MR. [illegible]: I can not speak for the private sector because I am limited in my knowledge of that field, but I think that there will be no doubt that the public sector can raise the amount of money that is [illegible]

I say that because the type of investment that the public sector is concerned with is one that we have no choice but to make.

That is one of the things that bothers me about the rate of interest. For example, Hydro really does not discourage a [illegible] very much if the rate of interest is high, simply because they have no choice but to get the money and to make the investment.

For example, in our Hydro [illegible] in Grand [illegible] here we are building a [illegible] that is going to cost us about $ 90 million [illegible] through and at the mouth of the Saskatchewan River, Grand Rapids, where it falls into Lake Winnipeg. That investment just has to be made. If we do not make it at Grand Rapids [illegible]

example, the item of interest cost. You have to [illegible] money to develop. Whether it should be the rate of, whether it should be higher, but it does not really much effect. You have to make the investment as [illegible] the same thing with schools and roads.

particularly municipalities borrowing for schools. It is the sort of thing they simply have to undertake regardless what the cost of money is.

Of course you cannot make any absolute or sweeping statement, it is always open to modification, but relatively speaking in relation perhaps to other types of capital investment, social capital investment is very hard to find. You can postpone it perhaps to some degree, but not very much.

Therefore I say that in the public sector we are going to get our money by hook or by crook, and I think we can. With respect to the private sector I am optimistic that they can as well, but it is very hard to be precise about that.

COMMISSIONER LEMAN: Using hind sight and your knowledge of local conditions, would you hazard a guess what on average -- you have presented to us a complete picture there of the public and private sector needs for the coming years -- would you hazard a guess as to on average how much more will be paid for this money in Manitoba than, let us say, the amount would call for, let us say, in Quebec or Ontario?

HON. MR. ROBLIN: No, I could not make an estimate of that.

COMMISSIONER LEMAN: You could not give us an idea of the added difficulty in terms of, say, a higher yield on the money? Is it half percent more?

HON. MR. ROBLIN: I think I cannot tell you anything about private investment, but I can say that as far as public borrowings are concerned that the

[illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]. It is the sort of thing they simply have to undertake regardless what the cost of money is.

Of course you cannot make any absolute sweeping statement; there always seem to be exceptions, but relatively speaking in relation perhaps to other types of capital investment, social capital investment is very hard to find. You may influence it perhaps to some degree, but not very much.

Therefore I [illegible] [illegible] [illegible] public [illegible] we are going to get [illegible] money [illegible] [illegible] [illegible] [illegible] I think we [illegible]. With respect to the [illegible] [illegible], I am optimistic [illegible] they [illegible] [illegible] well, but it is very hard to be precise about that.

COMMISSIONER [illegible]: Using [illegible] [illegible] and your knowledge of local conditions [illegible] [illegible] [illegible] a guess who, [illegible] [illegible] you have prepared [illegible] [illegible] complete picture [illegible] of the public [illegible] [illegible] needs for the coming years — would you hazard a guess as to [illegible] average [illegible] [illegible] [illegible] [illegible] [illegible] money in [illegible] [illegible] [illegible] let us say [illegible] [illegible] [illegible] call for, let us say, [illegible] Quebec or Ontario?

HON. MR. [illegible]: [illegible] I could [illegible] [illegible] [illegible] estimate of that.

COMMISSIONER [illegible]: You [illegible] [illegible] [illegible] an idea of [illegible] [illegible] difficulty [illegible] [illegible] [illegible].

HON. MR. [illegible]: [illegible] [illegible] [illegible] [illegible] [illegible] anything about private investment [illegible] [illegible] [illegible] [illegible] [illegible] public [illegible] [illegible] [illegible] [illegible] [illegible]

credit of this province is good. We are probably about, would I say, half a point above Ontario in respect of this matter, but with respect to, say, Quebec Hydro our Hydro will probably be on a par with Quebec Hydro and somewhat better than in other provinces.

I think our credit rating is a very good one. I think that that probably is the result of a confidence in the policies of the Government. I am not thinking of my own administration but the history of the province as a whole has indicated that we pay our debts. Therefore we have a pretty good credit rating.

COMMISSIONER LEMAN: But on the whole would you think that for half a per cent more over the $400 million needed for your purposes, that that really spells retarded development?

HON. MR. ROBLIN: I think that we are maybe talking at cross purposes here. I think that we have been able to get a good supply of money in the Province of Manitoba for our purposes, if that is the question; I think that we have been able to and I expect we will. The point that I was trying to make, I think, was that in addition to that there were many other opportunities of a relatively small character, small nature, which had in the past been neglected or not proceeded with because of the fact that we did not have that particular regional application that I was thinking about. But I would not like to leave you with the impression that on the whole, in respect particularly to our major activities, that we have been deprived of

dit of this province is good. We are probably about, would I say, half a point above Ontario in respect of this matter, but with respect to, say, Quebec Hydro our Hydro will probably be on a par with Quebec Hydro and somewhat better than in other provinces.

I think our credit rating is a very good one. I think that that probably is the result of the confidence in the policies of the Government. I am not thinking of my own administration but the history of the province as a whole that has handled [illegible] our debts. Therefore we have a pretty good credit [illegible].

COMMISSIONER LEMAN: But on the whole would you [illegible] find a per[illegible] over the $400 million needed for your purposes, that that money can be [illegible]?

HON. MR. ROBARTS: I think that we [illegible] might [illegible] our purposes. I think that we have been able to get a good supply of money in the Province of Ontario for our purposes. That is the question. I think that we have been able to and I expect we will. The point that I was making, I think, was that in addition to that there were many [illegible] opportunities of a relatively small character [illegible] nature, which had in the past been neglected or not proceeded with because of the fact that we did not have that particular regional section on that I am thinking about. But I would not like to leave you with the impression that on the whole in a real part [illegible] to our major activities, that we have been [illegible]

capital, because that would not be correct.

COMMISSIONER LEMAN: Now, to change a little bit the area of our interest here, your brief makes quite a point of the fact that excessive traditionalism or over-conservatism and the concentration of investment decisions in central Canada, etc., have created rigidities in the financial system from the point of view of a proper flow of capital. In fact you practically describe these capital-holding people as "old stay-at-homes" you know. What do you think has been the cause of that? Why has it become so over-conservative and "stay-at-home"?

HON. MR. ROBLIN: That would be a hard question to answer. I think that one, speaking for this province, I think one would admit that the temperament of our people is cautious.

I take, for example, the investment policies of the insurance companies. I think that one can say that although they are limited by statute, there is an area of equity participation which was open to them and which they have been very cautious about using. I do not think they have used it to the full extent that they could have, but it is rather difficult for me to say that they have done wrong in this, because they have to consider the proper interests of the people whose money they have. But it does seem to me that we could devise some machinery to make some of that money more readily available for the more risky type of operation that they do not support at the present time.

If there is a consortium of some sort to which

each one contributes a small amount, it would be helpful in this way and would not expose it to any major risk. It might also be that if it was felt that institutional saving of this sort should not be exposed to any risk or to a minimum risk (and philosophically it is quite possible to hold that point of view) then I would still like to see action taken, but there I suggest that perhaps a government ought to consider whether they would not guarantee the last 10 per cent as is done with the Farm Improvement Loan Act, or some mechanism of that sort which would relieve the fears of those who have the heavy responsibility of deciding what to do with that institutionalized form of saving.

COMMISSIONER LEMAN: Well, some paragraphs later in the brief, especially in Chapter VII, it seems to suggest that as the cause of all this there have been two causes. One would be the deficiencies in our taxation system and another would be the fact that too much of the people's savings today are institutionalized (you didn't like the word) -- it is channelled through trustees in other words.

HON. MR. ROBLIN: I think you have first to look at our brief in perspective. In other words, we are not attempting in this brief to analyze the pattern of the national economy in respect of the subjects under your discussion here. We are looking at it from a very specialized and particular point of view, and I dare say when we were considering the particular aspect there are other considerations which we might have brought forward, but there will be plenty of other folks to do

each one contributes a small amount, it would be only [illegible] in this way and would not expose it to any [illegible]. It might also be that if it were felt that [illegible] ceiling of this sort should not be exceeded [illegible] to a minimum risk load philosophically, it is quite possible to hold that point of view. I [illegible] like to see action taken [illegible] there is [illegible] a government ought to consider whether they [illegible] guarantee the last 10 per cent as is done with the Farm Improvement Loan Act, or some mechanism of that sort which would relieve the [illegible] of the heavy responsibility of deciding [illegible] institutionalized form of saving.

COMMISSIONER [illegible]MAN: We [illegible] paragraphs later in the brief, especially [illegible] Chapter [illegible], it seems to suggest that as the [illegible] have [illegible] consumption would be the deficiency in our [illegible] system and [illegible] the fact that too much of the people's savings today are [illegible] zed if you didn't like the [illegible] through these in other words.

HON. MR. [illegible]: I think you have [illegible] to put our brief in perspective. [illegible] to [illegible] attempt [illegible] of the national economy in respect of the [illegible] your discussion here. We are looking [illegible]

that

We feel our job is to try and show you some of the difficulties we have experienced here in the province. When you take the special approach as compared with the broad one, you run the risk of appearing to over-state your case or appearing to ignore other important factors. I tried to say at the beginning, particularly in the introduction here, that we were conscious of the risk we were running here, and we wouldnot like you to feel that because we have taken this narrow regional point of view, that we are unaware of those other factors.

I do not think that we would like to be so specific as to say that we knew what the basic problems were in many of these matters. I do not think we would care to make that statement. All that we can try to do is to indicate by the illustrations we have used some of the effects that we feel here.

With respect to your question on taxation, we feel that this should be looked into. I do not think that we would like to say that we know what the answer is or what is wrong with the present situation, except to just give a general impression as it strikes us, because we are really not specialists in this field What we do say is that perhaps the question of incentive and taxation is something that ought to be looked at these days.

After all, take the rate of progression in the personal income tax field. That rate of progression was set some time ago when people earned less than they

do now and when the value of money was different. Therefore, what was a satisfactory rate of progression in one period may not be satisfactory today, and that is perhaps the sort of thing that could be looked into in connection with this matter of taxation, because it does affect the pools of risk capital that are available. That would be the kind of thing we are thinking of when we refer to the question of taxation.

COMMISSIONER LEMAN: Mr. Roblin, there is another question I would like answered. It refers particularly to paragraphs 13 and 14 on page 23. You seem to have been impressed with the results that the United States have attained for municipal financing by means of this exemption from income tax. I think there are some people in the United States that have second thoughts about this. That is also a blunt instrument, is it not, in view of the graduated income tax. The Canadian Government has had some experience with tax-free Victory Bonds quite some time back, and I think that has disclosed some unsatisfactory aspects.

HON. MR. ROBLIN: Yes.

COMMISSIONER LEMAN: Of using that method, but on the whole, if we listen to people who would like to get money cheap or cheaper than others and perhaps all kinds of rebate systems and exemptions etc., who ends up by paying the high rates?

HON. MR. ROBLIN: Well, before I answer the question or attempt to answer it, perhaps I could give you some of the reasoning behind our suggestion. Over the past years we have come to the conclusion

do now and when the value of money [illegible]

Therefore, what was a satisfactory one of [illegible] in one period may not be satisfactory today, and this is perhaps the sort of thing that could be [illegible] in connection with this matter of taxation [illegible] does affect the goals [illegible] That would be the kind of [illegible] we are thinking [illegible] we refer to the question of taxation.

[illegible] another question I would like [illegible] particularly to paragraph 13 and 14 on page [illegible] seem to have been impressed with the results [illegible] United States have obtained for municipal financing by means of this exemption from income tax. [illegible] there are some people in the United States [illegible] second thoughts about this. There is also a [illegible] instrument. Is it not, in view of the graduated income tax. The Canadian Government has had some experience with tax-free Victory bonds quite some time back [illegible] I think [illegible] has disclosed some [illegible]

COMMISSIONER [illegible]

method, but on the whole, if we listen to [illegible] would like to get money cheap [illegible] and perhaps all types of [illegible] etc., who [illegible] paying the [illegible]

HON. MR. [illegible]

the question or attempt to answer [illegible] you some of the reasoning behind [illegible]

Over the past years we [illegible]

(and I don't know whether rightly or not) but it has seemed to us that in some respects, particularly for the smaller municipalities, these people were low men on the totem pole when it came to borrowing. Now, we thought that because we recognized that the Federal Government with its special relationship with the Bank of Canada was always able to sell the bonds it wished to sell at rates which under the circumstances would be good compared to the rest of the market, and we felt that private bond holders were in a position to add special inducements if they were anxious to make a favourable impression on the market, either by an increased interest rate, which in turn they could write off 50 per cent to the Receiver General of Canada, or in terms of special warrants or equity possibilities, convertibility and all that kind of thing -- that they have a means of making their bonds pretty attractive; whereas all the municipalities could do would be to increase the interest rate that they were prepared to pay and as a result recently -- it is much better now -- we were paying pretty high rates. It seemed to us one could consider whether this was satisfactory under the circumstances. In the light of that, we looked at the American situation where local bonds have a priority on the market by reason of their tax exemption. I recognize that can be abused, and I am not suggesting a province or municipality should have a right to sell any bond for any purpose it wishes, because one can conceive possibilities of misuse. I think, however, it may be possible for the Federal Government to list

(and I don't know whether rightly or not) but it has seemed to us that in some respects, particularly for the smaller municipalities, those people were low man on the totem pole when it came to borrowing. Now, we thought that because we recognized that the Federal Government with its special relationship with the Bank of Canada was always able to sell the bonds it wished to sell at rates which under the circumstances would be good compared to the rest of the market, and we felt that private bond holders were in a position to offer special inducements if they were anxious to make a favourable impression on the market, either by an increased interest rate, which in turn they could write off 50 per cent to the Receiver General of Canada, or in terms of special warrants or equity possibilities, convertibility and all that kind of thing -- that they have a means of making their bonds pretty attractive, whereas all the municipalities could do would be to increase the interest rate that they were prepared to pay and as a result recently -- it is much better now -- we were paying pretty high rates. It seemed to us one could consider whether this was satisfactory under the circumstances. In the light of that, we looked at the American situation where local bonds have a priority on the market by reason of their tax exemption. I recognize that can be caused, and I am not suggesting a province or municipality should have a right to sell any bond for any purpose it wishes, because we can

certain categories for which this type of money could be obtained, and I think schools and roads and things of that nature. I don't think public utilities operated by a government should have that priority. Let them take their ordinary position. But, for these essential items of social capital which private enterprise needs, if we are going to have the basis on which they work -- well, we can't do without schools and the other things I mentioned. They are basically essential, and there could be an argument for giving them some priority. If you don't like the tax exemption feature, there are other methods which we propose. We still think in spite of objections which might legitimately be raised it is worthy of very careful consideration.

As for who pays the higher rate of interest, well, I wonder if I am able to follow that particular logic of events through to the market place? I doubt if I am. I merely say the type of investment I am talking about is one which is not going to be postponed or avoided because of interest rates. It is absolutely necessary and will be made regardless, and therefore -- on social grounds, certainly, if not any other -- there is some argument, I feel, for giving some consideration.

COMMISSIONER LEMAN: Mr. Roblin, you did refer on page 11 in paragraph 2 to the fact that large enterprises, especially those retaining a substantial portion of their earnings, and you said you were a little hesitant as to saying whether it was good or bad, or desirable or not. You would not go right out and suggest here undistributed earning tax, or something of

[redacted]gories for which this type of money can be obtained, and I think schools and roads and things of that nature. I don't think public utilities regarded by a government should have that priority. Let them take their ordinary position. But for these essential items of social capital which private enterprise needs, if we are going to have the basis on which they work -- well, we can't do without schools and the other things I mentioned. They are basically essential, and there could be an argument for giving them some priority if you don't like the tax exemption feature. There are other methods which we propose. We still think in spite of objections which might legitimately be raised it is worthy of very careful consideration.

As to who pays the higher rate of interest, well, I wonder if I am able to follow that particular logic of events through to the market place? I doubt if I am. I merely say the type of investment I am talking about is one which is not going to be postponed or avoided because of interest rates. It is often necessary and will be made regardless, and the effect on social grounds, certainly, it seems to me there is some argument, I feel, for giving some consideration.

COMMISSIONER LEMAN: Mr. Goodman, you did refer on page 4 in paragraph 2 to the fact that large enterprises, especially those retaining a substantial portion of their earnings, and you said you were a little hesitant as to saying whether it was good or bad or desirable or not. You would not go so far as to suggest here undistributed

that kind?

HON. MR. ROBLIN: I don't think I would. I don't feel we know enough about this to be certain it is the right thing to do. I know it has been suggested by other people looking into this kind of thing. I am not sure whether the Radcliffe Report in the United Kingdom includes it: I rather think it does. I am not at all certain it is the right thing, I am merely offering it as an area for investigation, and I would not like to go any further than that.

COMMISSIONER LEMAN: This leads me into a related subject: You talk on the same page about the tendency for the concentration of industry. Is that an impression, or do you think you could adduce some statistical evidence to show this is taking place on a net basis? In other words, as the large units become larger we must admit there are also a lot of small units being created all the time, and medium units getting bigger. What do you think is happening in the whole country -- is there really concentration, or perhaps there is not?

HON. MR. ROBLIN: I am inclined to say there is, and I think one would relate it to natural forces among other things. It is no use pretending there is not a tendency towards bigness in industry, or that it is not a good thing, because it produces satisfactory economic results. I think there is a tendency for it to feed on itself. We see that taking place in the country. I am not suggesting we should by any artificial means attempt to thwart what would be otherwise a satisfactory

I don't feel we know enough about this to be certain it is the right thing to do. I know it has been suggested by other people looking into this kind of thing. [illegible] not sure whether the [illegible] Report in the United Kingdom includes it. I rather think it does. I am not at all certain it is the right thing. I am merely offering it as an area for investigation, and I would not like to go any further than that.

COMMISSIONER LEWIN: This leads [illegible] to a related subject. You talk on the same page about the tendency for the concentration of industry. Is that an impression, or do you think you could adduce some statistical evidence to show that it is taking place on a net basis? In other words, as the large units become larger we must admit there are also a lot of small units being created all the time, and medium units getting bigger. What do you think is happening in the whole country -- is there really concentration, or [illegible]

[illegible]

HON. MR. KOLLIN: I am inclined to say there is, and I think one would relate it to economic forces among other things. It is no use pretending there is not a tendency towards bigness in industry, or that it is not a good thing, because it produces certain very economic results. I think the only tendency [illegible]

[illegible]

[illegible]

attempt to thwart what would b[illegible]

and natural development. If that is going on, then, all the more reason to make use of what local possibilities we have. We cannot transport the Ontario industrial complex to the banks of the Red River. It is on the banks of Lake Ontario. We cannot move the petrochemical industry of Alberta to our province, because the oil and gas is in Alberta. What we can do is make the best use we know how of what assets we have got here, and it is in that line of thought I would like to bring in this emphasis on regional possibilities. I don't think we want to distort the economy, or that anyone would suggest that for what one might call parochial reasons, but we do have a duty of making the most of what we have got, and that is what we are trying to say; and that if the people who have the money available for lending were made more aware of the local possibilities perhaps there would be greater development here, and we base that hope not merely on our aspirations but upon the results we have achieved -- they are small, but I think significant -- in our own efforts here with respect to the Manitoba Development Fund and the Department of Industry and Commerce.

COMMISSIONER LEMAN: You point out some place in the brief that it is very hard to measure -- there are no statistics available, and it is hard to measure the flow of savings by residents of Manitoba -- what the total is and where it goes; where it is invested: Could you hazard a guess as to whether there is a net inflow of capital into Manitoba or a net outflow out of Manitoba?

HON. MR. ROBLIN: That is a difficult one.

and natural development if that is going on, then all the more reason to make use of what small possibilities we have. We cannot transport the Oil industry complex to the banks of the Red River. It is on the borders of Lake Ontario. We cannot move the petrochemical industry of Alberta to our province, because the oil and gas is in Alberta. What we can do is make the best use we know how of what resources we have got here, and it is in that line of thought I would like to bring in this emphasis on regional possibilities. I don't think we want to distort the economy, or that anyone would suggest that for whatever might come [illegible], but we do have a duty of making the most of what we have got and that is what we are trying to do, and [illegible] the people who have the money available [illegible] made more [illegible] perhaps there would be greater development [illegible] and we [illegible] hope not merely [illegible] but [illegible] we have achieved -- they are small, but I think significant -- in our own efforts here with respect to the Manitoba Development Fund and the Department of Industry and Commerce.

COMMISSIONER [illegible] place in the [illegible] there are no statistics [illegible] total [illegible] you hazard a guess [illegible] of capital into Manitoba [illegible] out of Manitoba

One could take the sales of life insurance or the statistics of bank savings and things of that nature to try to determine it, but I think I would be safe in saying there is a net inflow in Manitoba. I would be surprised if the figures proved me wrong. Here we have not a mature economy. We have a developmental economy. We have an economy which is in full flight, one might say, between what was once basically agricultural, and nothing else much but some distributional activities, into one which is becoming more balanced and more mature and more diversified which, it seems to me, would be requiring capital from those areas of the country which are further advanced than we are, so I would expect we would importers of capital.

COMMISSIONER MACKINTOSH: I have one or two questions, Mr. Roblin, I would like to ask about your comments on the chartered banks. I realize that the submission you have made is designed to indicate to the Commission areas of study which you think would yield valuable results, but we also need from people who know the regional situations more concrete evidence. You say in your first paragraph that the chartered banks are more likely to be responsive to needs in the head office area than in outlying areas. Have you come into contact with evidence of this in Manitoba? This is a general statement, but we find it hard to pin it down.

HON. MR. ROBLIN: I agree with you it is hard to pin down, and I imagine every area that

One could take the [illegible] of [illegible] the statistics of bank [illegible] things [illegible] to determine it, [illegible] I would be [illegible] in saying there [illegible] Mr. [illegible]. I would be surprised if the figures proved me wrong. We are not a mature economy. We have [illegible] economy. We have an economy, which [illegible] one might say, between what was once basically agricultural, and nothing [illegible] distributional activities [illegible] more [illegible] and more [illegible] which, it seems to me [illegible] those areas of the country which are [illegible] than we are, so I would expect [illegible]

[illegible]

or two questions. [illegible] about your comments on the chartered banks [illegible] that the submission you have made is designed [illegible] indicate to the Commission [illegible] think would yield [illegible] from people who know the [illegible] situation [illegible] concrete evidence [illegible] say in [illegible] that the chartered banks [illegible] to needs in the head office [illegible] Have you come into contact with evidence of [illegible] Manitoba? This is a general statement [illegible] it hard to [illegible]

HON. MR. [illegible]: I agree with you it is hard to pin down, and I [illegible] every [illegible]

imagines itself as outlying makes the same complaint. I think as far as I would like to go is to say that with the head office complex that we have in the country -- and it does not apply to banks alone, because it is evident in other forms of economic activity as well -- that there is a tendency to lose sight of the local and perhaps the personal factor in these things. I must start by saying that in so many ways the chartered banking system does a job for this province and it perhaps seems a little uncharitable to be critical. However, I do feel there is ---

COMMISSIONER MACKINTOSH: I don't think charity enters into our banking system.

HON. MR. ROBLIN: It is, though, a component of politics, I am sure, Mr. Chairman. It is the kind of situation perhaps which could be described in this way -- and I realize in making this comparison I am over-stating the case -- but I think it gives the kind of thing we are looking at: A branch banking system, even thought its regional officers are responsible for achieving satisfactory results for the bank in their regions, I do not think have the same quite intense interest in what the community is doing as, for example, the American type bank which has its sole reason for being related to a relatively small economic community. A bank in St. Paul or Minneapolis -- although one has to admit the tendency to branch banking is growing there -- banking based on that community and whose sole success or failure is related to that community, and whose presiding executive has an intimate knowledge

imagines itself as outlying makes the same complaint. I think as far as I would like to go is to say that with the head office complex that we have in the country -- and it does not apply to banks alone, because it is evident in other forms of economic activity as well that there is a tendency to lose sight of the local and perhaps the personal factor in these things. I must start by saying that in so many ways the centralized banking system does a job for this province and it perhaps seems a little uncharitable to be critical. However, I do feel there is --

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of the personalities as well as the economic possibilities is more likely to seize marginal opportunities that become available than a bank system such as ours. One has to admit it has defects, because in times of economic crisis that kind of bank may be in serious trouble, whereas in the Canadian banking system it is relatively immune to regional difficulties. You do not get the same thing to the same degree. So, it is not a question of black and white here. It is a question of degree and shades of colour. However, I do think we could have more emphasis on the regional possibilities than we have at the present time. I am quite willing to admit it is difficult to obtain statistical evidence. We don't know who got turned down. All we know are the people who got credit. We don't know whether the turn-down was good or bad. It is difficult to get facts. The only facts I would adduce in support of my argument is the situation we found with our own Industrial Development Fund, because under the rulings of the workings of that fund we don't like to talk to anybody until they have been to their chartered bank. In fact, we don't like to talk to them until they have been to the Industrial Development Bank. It is after they have been there that they come to us. Yet, we have been able to find a good many good investments in respect of people who have been declined for one reason or another by those other institutions. When I say "good investments" we are not running a charitable institution; it is operated on a strictly business like basis at arm's length,

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and their record is not very long but, such as it is, it is good with respect to losses. We are quite satisfied with it, and they have been able to introduce new investment which would not otherwise be in place -- and this is what I would like to emphasize -- it would not otherwise be in place, to the tune of some thousand or so jobs in this province in the last few years, and the thousand jobs in the province of Manitoba is well worth fighting for particularly when they are in the area of employment difficulties such as in the poor areas or the smaller areas away from Winnipeg. That is the evidence we would rely on in saying there is a credit gap here.

COMMISSIONER MACKINTOSH: I take it you believe when the chartered banks have done their bit and the Industrial Development Bank has done its bit and the Development Fund has taken a proportion, that there is still a viable remainder that somebody else could finance?

HON. MR. ROBLIN: I think so, but I put it this way: That our Manitoba Development Fund could do with a little more money. We think we could probably place more investments than we do at the present time, because naturally we have to expand the capital of that fund year by year as we grow, and it has to take its place among the other capital requirements of the provincial government. While it has an important priority, I think it could use more money than we make available to it because we have to ration ourselves according to our other requirements and other

priorities. The suggestion we would make, if one decides the present situation is all right is that we would then say, " Give us some support to our Manitoba Development Fund, and if you place on the province the responsibility of digging out these marginal or rather difficult local opportunities, if you say that is a proper function for us, then, give us a little more financial support and we will accept the responsibility." That, perhaps, would be an alternative to these other suggestions we have made, but we feel that whatever side of the argument you come down on there is room for a better job than we are doing at the present time.

COMMISSIONER MACKINTOSH: I found some implication in the paragraph which may not be correct: There was lack of initiative. In my limited knowledge, most of this credit business comes to the institution by way of an application. That is, they are not originating bodies; they consider a proposition that others have thought up and that, aside from the desirability of more capital, you may find some lack of practical ideas, and it is very difficult to get that out of the banking system or out of the financial system which on the whole tends to assess a range of propositions

HON. MR. ROBLIN: I think that is a very valid statement. I agree with you one of the difficulties we are trying to overcome is that very situation. We would like to see some method by which we can not only have money available for borrowers when needed; we want to see emphasis placed on the creation of the development of investment opportunities. We recognize

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HON. MR. ROBLIN: I think that is a very valid statement. I agree with you one of the difficulties we are trying to overcome is that very situation. We would like to see some method by which we can not only have money available to borrowers when needed: we want to see emphasis placed on the creation of the climate of investment o

perhaps that is not the function of the banking system today or the insurance companies or any of these other people we have been talking about. That may not be within their proper role, but we do see the need for something to be done about the creation of the development of investment opportunities because there may be capital available and plenty, but, as you rightly point out, there is not enough opportunity for its proper investment, and that is not going to do anybody any good. We are trying to do that on a developmental basis.

We have had some experience with respect to that. We used forest products which formerly were useless, we found a use for them, found a market for the products, found somebody who knew about the process which we believed seemed a solution to our problem and concentrated on the creation and development of local efforts and we do not feel enough is being done in that respect.

I think probably if we could arrange to have all our people who are interested in financing get together to consider this problem we might be able to devise some system for attracting a better share than we do today.

It might be we might have recourse to this consorting idea so that we get more deeply into this which would assist us in developing local research and local information which we mention in this brief so that we will be acceptable to the people who depend upon us. So quite frankly I believe a good deal of what

might otherwise be thought of as in terms of our institutions and banks might work towards the creation and development of opportunities but I think that is one of the key places to which this should be applied and if that cannot be applied I suggest we should find something else.

COMMISSIONER MACKINTOSH: You raise the point in a later paragraph that the banks apparently attempt to carry on their lending institutions on a generally uniform basis throughout the country for similar propositions and the implication is that the United States has greater variation. I think you will find in the United States that the rates of interest to the outlying regions are higher, that this does not mean that because of regional autonomy in the American banks that the outlying districts get lower rates. They do not. They tend to get higher rates. I don't mean higher than similar districts across Canada but higher than the central regions so that the banking system is more fair in making credit available although you may say that perhaps in some districts it is only that if they did make the credit available it is at uniform rates. You feel this 6 per cent rate of interest or ceiling is an element of inflexibility. Would you like to see this removed or raised or lowered?

HON. MR. ROBLIN: I think we should consider whether or not we can improve the situation to introduce an element of flexibility. I say we are going to have to be cautious about making dogmatic statements about it because it is a matter which must

might otherwise be thought [illegible] of our institutions and bank [illegible] as the [illegible] and development of opportunities [illegible] think that is one of the key places to which it should be applied and if that cannot be applied [illegible] should find [illegible]

COMMISSIONER MACKINTOSH: You raise the point in a little paragraph [illegible] attempt to carry out lending instructions [illegible] generally uniform [illegible] the [illegible] similar propositions and [illegible] United States being [illegible] you will find in the United States [illegible] the outlying regions [illegible] mean that because of regional [illegible] banks that the outlying [illegible] get [illegible] don't. They tend to get [illegible] than similar districts [illegible] the [illegible] region [illegible] fail in making credit [illegible] there perhaps in some districts [illegible] old [illegible] Yet I feel this [illegible] is an element of inflexibility [illegible] this removed [illegible]

HON. MR. KURITZ: [illegible] consider whether or not we [illegible] to introduce an element of flexibility [illegible] going to have to be cautious about [illegible] statements about it because [illegible] which [illegible]

have a great deal of consideration but let me give you some points I think should be considered.

If you have a uniform banking rate across the country at 6 per cent it seems reasonable to assume that the tendency will be for that money to be loaned to those institutions where 6 per cent plus the security that they represent make it a secure transaction in those areas where not so great security does not make such an attractive proposition.

I have no knowledge of just how influential this is but if it were looked at we would assume that the best risks would receive some measure of consideration because they are the best risks and that is something one would have to consider.

The second point that I would like to mention is that this has to do with the Central Banking arrangement rather than the chartered banks. This deals with the question of flexibility, when, for example, we had in 1956 -- and I say 1956 because I was a private businessman then -- in 1956 we had a credit freeze and I said at the time that it was because of the rate of growth in the country as a whole which really meant the central provinces were going at a pretty good clip and there was no need to add fuel to the fire but that was far from the case in Manitoba. In Manitoba at that time we were not operating at a satisfactory peak of the economy, we could very well have used more credit but our position was difficult and this was an unknown quantity. I think if there had been more flexibility in that respect I think we

have a great deal of consideration but let me give you some points I think should be considered.

If you have a uniform booking rate across the country of 6 per cent it seems reasonable to assume that the tendency will be for that money to be poured into those institutions where 6 per cent gives the security that they need and [illegible] in those areas where not so great security [illegible] such an attractive proposition.

I have no knowledge of just how influential this is but if it were to be used we would assume that the best risks would receive some measure of consideration because they are the best risks and that is something one would have to consider.

The second point that I would like to mention is that this has to do with the Central Mortgage [illegible] rather than the chartered banks. This deals with the question of flexibility where, for example, we had in 1956 -- and I say 1956 because I was a private businessman then -- in 1956 we had a credit freeze and I said at the time that it was necessary [illegible] the rate of growth in the country as a whole [illegible] really meant the central provinces were going at a pretty good clip and there was no need [illegible] the fact that we [illegible] from the [illegible] in Manitoba at that time we were not experiencing a satisfactory peak in the economy [illegible]

and this was [illegible]

would have been in better shape. I appreciate it is pretty difficult to devise a way in which you would operate but it is something I think the Commission ought to take cognizance of.

COMMISSIONER MACKINTOSH: One or two more points. In paragraph 10 and following paragraphs you raise the question of segregation of what you call inactive savings or long-term investments and loans to municipalities and school districts. Several people mentioned this inactive layer of savings, so-called. There is not much evidence that they are inactive in the sense that the banks do not mind loaning and investing in their use. Do you feel if there is any measure of segregation of these savings -- at one time I believe the Bank of Canada suggested they be segregated in 90 per cent Federal bonds. Well, that sounds like a good market but whether it is a good use of the capital I don't know. If they were diverted for this particular purpose you are interested in they would be diverted from some other use. They are idle in the sense of deposit, they are not idle in the sense of capital, for example, particularly the trust and loan companies, long-term investment, have they been good investors in school districts etc.?

HON. MR. ROBLIN: Well, I appreciate very keenly the implications of segregating any portion of the banks' resources for a particular purpose and I think one would have to approach that with a good deal of care as well. If I were asked to choose between some form of increased recognition for municipal

would have been in better shape. I appreciate it is pretty difficult to devise a way in which you would operate but it is something that the Commission ought to take cognizance of.

COMMISSIONER MACKINTOSH: One or two more points. In paragraph 10 and following paragraph you raise the question of segregation of what you call inactive savings or long-term investments and loans to municipalities and school districts. Several people mentioned this inactive type of savings, so-called. There is not much evidence that they are inactive in the sense that the owners are not continuing and investing in them [illegible]. Do you feel there is any measure of segregation of these savings -- at one time I believe the Bank of Canada suggested they be segregated in 90 per cent grade of bonds. Well, that sounds like a good idea but [illegible] it is a good use of the capital I don't know. If they were inactive in this particular purpose you have interest in they would be diverted from some other use. They are liable in the sense of deposit, they are available in the sense of capital, to extend [illegible] to [illegible] and [illegible] companies [illegible] investments [illegible]

HON. MR. ROSTEIN: Well, I appreciate very keenly the implications of segregation [illegible] the bank [illegible] I think one would have to approach that with a good deal of care or caution. If I were [illegible] between

securities under the present rates and this proposal I would choose the former. There is no doubt in my mind about that but we have found that in the past, particularly with the lesser known school districts and municipalities in this province that it is very difficult to get satisfactory markets in Toronto or the east for these securities. I do not believe it is due to anything else than the fact that nobody had ever heard of them before down there and there is a considerable amount of doubt about the status of these borrowers, just who they were and how reliable they were and we found difficulty in placing some of our issues and at very substantial rates of interest. But I may say that that situation is not as difficult for us as it was because we have taken several steps to try to remedy it.

The first thing is we provide for these borrowers an informational service through our municipal board here so that instead of going down as borrowers to Toronto with no idea who or what they are, we provide them with a thick brochure to consider in respect of these borrowings. Secondly, we were able to co-operate with the investment dealers themselves. We organized a party of people from Toronto under the auspices of one of the municipal companies who came out here and looked at us and met some of us to see what it looked like here and found, I think, that we were very much like the people in Ontario or other parts of Canada and we think it made matters a lot better for us when we had people down there who could say, "We have been to the place and recognize the

securities to meet the present ones and this [illegible] I would choose the former. There is [illegible] in my mind about that but we have found that in the past, particularly with [illegible] have known [illegible] districts and municipalities in the province [illegible] it is very difficult to get satisfactory markets for [illegible] these [illegible]ities. I [illegible] else than the fact that nobody had [illegible] before down there and they [illegible] of doubt about the [illegible] of them however, just what they were and how reliable [illegible] and we [illegible] difficulty in placing some of [illegible] substantial rates of interest. But I may say [illegible] situation is not as difficult [illegible] we have taken several steps to try to remedy [illegible]

The first thing [illegible] we provided for [illegible] to have an information [illegible] bond houses that instead of going [illegible] to Toronto with no idea who [illegible] what they [illegible] we [illegible] them with [illegible] in respect of these [illegible]. Secondly, we [illegible] to [illegible] with the [illegible] themselves. We required [illegible] of [illegible] for [illegible] out [illegible] and I asked [illegible] what [illegible] looked like here and [illegible] we [illegible] much [illegible]

name", so that one has to be fair about it and say that the market for Manitoba municipals and school boards is much improved in the last couple of years.

We also employed another device which I think is helpful and the province agrees to enter into an agreement with the borrower on debentures and say to him that we will undertake , if necessary, to hold back provincial school grants to this particular board in order to satisfy the requirements of this bond issue. As we are paying pretty close to 50 per cent of all the school grants in the province and in some areas as much as 60 per cent therefore this trustee guarantee this has improved the situation as far as Manitoba municipals and school boards are concerned and we are getting a better deal at the present time. There is no doubt in my mind as to that fact.

I go on from there and say, however -- and I do not want to repeat it but I would say too that our brief be given special consideration on certain devices of social capital but I must say in the last two years due to the efforts of the industry as well as others we have had this quite remarkable improvement in our position which we must acknowledge and which we are certainly appreciative of.

COMMISSIONER MACKINTOSH: You have not gone to the extent of guaranteeing funds?

HON. MR. ROBLIN: No, the sort of provincial-municipal? No, we do not really think that is a good substitute for the agreement

THE CHAIRMAN: I would think a hold-back

home", so [illegible] to be fair about it and say that the market for [illegible] municipals and school boards is much improved in the last couple of years.

We [illegible] level [illegible] which I think is helpful, and the Province agrees to enter into an agreement with the board [illegible] to him that we will [illegible], it [illegible] back provincial school grants [illegible] in order to [illegible] the [illegible] of this bond issue. As we are paying pretty close to 50 per cent of the school grants in the province [illegible] as much as [illegible] this [illegible] this has improved the situation as far as Manitoba municipals and school boards are concerned and we are getting a better deal at the present time. There is no doubt in my mind [illegible] important.

I [illegible] from [illegible] and say, however [illegible] I [illegible] want to [illegible] that [illegible] would be given [illegible] devices of [illegible] years due to the efforts [illegible] others we have [illegible] this quite [illegible] in our position which we must [illegible] we are [illegible].

[illegible]

not [illegible] the [illegible]

[illegible] MR. ROBLIN [illegible]

pro[illegible]

[illegible] to [illegible]

on the grants would be very effective.

HON. MR. ROBLIN: I seems to have been effective. It is, in fact, a complete guarantee as far as one can guarantee anything to the lender that the province stands behind it with a formal guarantee by the province by reserving these monies in trust.

COMMISSIONER GIBSON: The province does not normally guarantee these issues directly?

HON. MR. ROBLIN: We have the power to do so. For example, in certain circumstances we have the power to do so and we have done so extensively but we have tried to limit our guarantees to essential cases because it does dilute the credit of the province. If you get too many guarantees out you find it is a consideration when you yourself want to borrow. We find the trust agreement just as satisfactory and in future we will be using the same system. We have a $65 million hospital programme coming up over the next eight years and we are going to use the same trustee system in helping the hospitals to market their bonds.

COMMISSIONER GIBSON: Is your motivation in not making guarantees simply not to dilute the credit of the province or is it also related to the local activity? Is that not a factor?

HON. MR. ROBLIN: I think both factors enter into it. We find that we have just as good results through the trustee arrangement as we could through a guarantee and therefore why guarantee. If we are having good results with the trustee arrangement we should be satisfied with them.

COMMISSIONER BROWN: I wonder if I might ask if you are dealing with municipal issues and the possibility of any tax advantage, I would like to ask a question: In view of the fact that most municipal securities maybe are sold to institutions that are not subject to income tax and therefore there would be no benefit to them if some tax advantage was given to the buyer of such securities and the only tax advantage would be to the individual buyer who, at the moment, is only a small part of the municipal market, have you considered to what extent any tax advantage would lower the requirements?

HON. MR. ROBLIN: That is a consideration that has bothered us and we recognize that it exists. However, we feel it might be better to attract local investors to a much greater degree than we do at present. Let me tell you what we did. Last year the province of Manitoba decided to issue its own Manitoba savings bonds, a 5 per cent cash on demand proposition which is a pretty good arrangement, I think, with most investors. We got nearly $41 million in three or four days. $25,000 limit, you must be a citizen of Manitoba, strictly a local effort. When we analyzed it we found that most of the people who did subscribe by taking it out of the sock, we did find this large pool of local capital available. We had another issue this year at 4-3/4 per cent and at that rate we got $20 million. We find that if you can induce them to come forward there are substantial quantities of capital around the province and it seems to be particularly in

might ask if you are dealing with [illegible] issue and the possibility of any tax advantage. [illegible] of a question [illegible] in view of the fact that [illegible] securities may be [illegible] sold [illegible] individual [illegible] subject to income tax and the [illegible] benefit to them if some tax advantage [illegible] the buyer of such securities and the [illegible] would be the individual [illegible], or [illegible] only [illegible] part of the municipal [illegible] considered [illegible] extent any tax advantage would lower the requirements?

HON. MR. ROSS: [illegible]

[illegible] however, we [illegible] might [illegible] present [illegible] saving [illegible] which [illegible] interest [illegible] 54 [illegible] 20,000 [illegible]

Manitoba, [illegible] it was [illegible] by making it [illegible] or local [illegible] this [illegible] \$20 [illegible]

these smaller school districts and municipal areas that they are pretty largely all local people. We have a demand that we have to assume is unexplored and available. We might find out that the process might be of advantage to us. We have to assume that possibility but we just want to have a pretty good look at it and see how it would work.

COMMISSIONER BROWN: Under the new tax arrangements with the Federal Government would it be possible for the province to give some special consideration to taxpayers in their own province?

HON. MR. ROBLIN: No, it would not be possible. That is, if you want the Federal Government to collect your taxes for nothing, and that is what we now do want, it would not be possible because we have been through this at great length because we did want to bring in some variation in the tax structure but we were told that we had to work on their rules down to the last copper and that is the situation. We really have no power whatever to do that kind of adjustment to the tax corporation or income tax structure if we wish the Federal Government to collect and that is what we very much want so we have to abide by their ruling.

COMMISSIONEF GIBSON: Have you reached the point , Premier Roblin, in your thinking with regard to these possible types of tax incentive where you can see whether you prefer the idea of making your municipal securities exempt from income tax or the idea of a dividend credit free from income tax?

HON. MR. ROBLIN: Well, perhaps the

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HON. MR. ROBLIN: No, it would not be possible. That is, if you want the Federal Government to collect your taxes for nothing, and that is what we now do want, it would not be possible because we have been through this at great length because we did want to bring in some variation in the tax structure but we were told that we had to work on their rules down to the last copper and that is the situation. We really have no power whatever to do that kind of adjustment to the tax corporation or income tax structure if we wish the Federal Government to collect and that is what we very much want so we have to abide by their rulings.

COMMISSIONER GIBSON: Have you reached the point, Premier Roblin, in your thinking with regard to these possible types of tax incentive where you can see whether you prefer the idea of making your municipal securities exempt from income tax or the idea of a dividend credit free from income tax?

dividend credit idea might be more practical of application from some point of view but I think that the psychology of a tax-free solution is the more acceptable one from our point of view. I think it would help to sell it better than the income tax reduction because many of the people we look to to buy these bonds perhaps are not very sophisticated with respect to income tax matters, I think, and certainly from a point of view of where we said it was tax free from a psychological viewpoint I would be inclined to favour that.

COMMISSIONER MacKEEN: Premier Roblin, I have a few questions I would like to be enlightened on. You were speaking about over centralization of the chartered banks and the possibility they were looking for their customers in the areas where their head offices or their main offices were possibly to the detriment of the outside territories. Do you think that the public appreciates the amount of de-centralizatio that exists in the banks in their areas of supervision and even below that the stage which particularly affects the small borrower of the local manager in the branch office?

HON. MR. ROBLIN: Well, I start off by saying that I do not think that the man at Toronto gets an unfair advantage over us. We would simply like the same advantage that he gets of that personal connection and face-to-face consideration.

I probably would agree with you that there may be an impression abroad that the banks are more

dividend credit idea might be more practical of application from some point of view but I think that the psychology of a tax-free solution is the more acceptable one from our point of view. I think it would help to sell it better than the income tax reduction because many of the people we look to to buy these bonds perhaps are not very sophisticated with respect to income tax matters I think, and certainly from a point of view of where we said it was tax free from a psychological viewpoint I would be inclined to favour that.

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HON. MR. ROBLIN: Well, I start off by saying that I do not think that the man at Toronto gets an unfair advantage over us. We would simply like the same advantage that he gets of that personal connection and face-to-face consideration.

centralized than they actually are, because we have in Canada, they have their regional organizations and we have some pretty satisfactory branch bank operations and I do not want to minimize or overlook that fact. I simply say, however, not wishing to repeat my general thesis, I would simply say that we feel that there are and should be a greater emphasis on the regional development idea.

Perhaps what I am trying to get at that we want to see more of this creation and development of regional opportunities, perhaps not initiated by the financial machinery but as part of the financial approach, rather than just with these businessmen coming in and asking for a loan and like that and, so that it may end this whole argument, that it would be quite unfair to say that the chartered banks are centralized monsters or anything of that sort, because they are not; but on the other hand I think this is equally valid to say that we do not have the maximum regional approach that I would like to see.

COMMISSIONER LEMAN: I will put it in this way, that the main complaint will come from the small borrower in times of tight money, and that in actual practice it is the decision largely of the branch manager who sees this individual borrower directly. Do you think there is a complaint there that money is kept in the centre of the country rather than ---

HON. MR. ROBLIN: You cannot blame the chartered banks for tight money policy. That is the function of the federal authorities and the Bank of

capitalized than they actually are, because we have

and we have some pretty [illegible] [illegible] questions and I do not want to [illegible] [illegible] that fact. I simply say, however, [illegible] [illegible] repeat my general thesis. I would simply say that we feel that there are [illegible] [illegible] [illegible] in the regional development [illegible]

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COMMISSIONER [illegible]: [illegible] [illegible] this way, that the [illegible] companies will [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] practice it is the decision [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] do you think [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] the centre of the country [illegible] [illegible]

HON. MR. [illegible]: You [illegible] [illegible] [illegible] chartered banks [illegible] [illegible] money policy [illegible] [illegible]

Canada. I do feel -- it is really a repetition of what I said -- I do however feel that this is a blunt instrument for which the banks may be blamed largely by local borrowers, and I refer to my previous suggestion that I would like to see something more precise than a blunt instrument of that sort in effect.

But I come back again to my other point that as far as we are concerned the basis of our argument would be demonstrated by the fact that we have a Manitoba Development Fund, and it still offers many opportunities for investment.

COMMISSIONER LEMAN: Do you think that the banks should be required to do the rationing in a period of tight money?

HON. MR. ROBLIN: I think that inevitably they are going to be saddled with that job, because the central bank can only lay down pretty broad rules, and the chartered banks have to apply them.

I know that taking my own experience in 1956 that I remember so well, the bank manager here, head office manager here, made it quite clear that his directive came from his head office in Toronto and in turn head office were obeying the regulations of the Bank of Canada and it was a regulation that applied to the whole country so that you could not blame the chartered banks for that. I suppose that would always happen when we have some ceiling put on the amount of credit that is available.

All I can say about that is that we do think that these broad national policies should take into

Canada. I [illegible] this [illegible]

of I said — I [illegible] [illegible] is [illegible]

instrument for [illegible] may be [illegible]

by local [illegible] and I [illegible] my previous [illegible]

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COMMISSIONER [illegible]MAN: Do you [illegible]

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HON. MR. KOBLIN: [illegible]

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1955 that I remember [illegible] well, [illegible]

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[illegible] banks [illegible] that [illegible] would [illegible]

[illegible] when we [illegible] ceiling [illegible]

of credit that [illegible] available.

All I can say about that [illegible]

that the [illegible]

account local considerations. If there is no inflation in Manitoba we do not see why the cure for inflation should be applied to us.

COMMISSIONER MacKEEN: I come from Nova Scotia myself and I sympathize with your remarks on that, but I think it would be awfully difficult to overcome as long as there is so little flexibility in the rates that are charged. I don't know. What is your opinion?

HON. MR. ROBLIN: I agree with that. I think I would agree with that.

COMMISSIONER MacKEEN: In other words, would it not be your opinion if, say, there were more widespread credit in Manitoba or Nova Scotia, that the firms having branches there, national firms, would do their borrowing in Manitoba or Nova Scotia and cut down on Ontario or Quebec.

HON. MR. ROBLIN: That would be interesting to see how that works out.

COMMISSIONER MacKEEN: One other point on the segregation on non-active earnings. We have been through a long period where savings have been left there, admittedly on the part of the large proportion of depositors as a nest egg that they will retain under all possible conditions. They will borrow from the bank or borrow from some other source rather than withdraw savings; and when it comes to a point where withdrawal of savings becomes necessary, such as happened in the United States in their banking system in the early 30's and when money had to be taken out,

was it not one of their difficulties that a lot of those banks had their investments in long-term loans that could not be liquidated and therefore they could not pay their depositors?

HON. MR. ROBLIN: Well, I will be quite frank with you. As I said a little while before to one of the members of the Commission, we want the best of both worlds, let us be frank about that. We want the stability of the Canadian banking system and all that implies, and we want the regional flexibility which we see in some aspects of the American banking system which we hope that we can graft onto our stable and sound system of banking that has stood up through every trial, and some of the advantages that we see in the other, without destroying confidence that one rightly feels in the Canadian banking system.

In connection with these muncipals, when we are taking the figure to bring off an annual borrowing of $252 million, many of those no doubt were for big institutions or big corporations like the City of Winnipeg, which I think would be more happy to stick to the traditional sources of supply. All that we are saying in respect to these segregated earnings is that these should be an outlet for the smaller municipalities that may not have any recourse to the regular market, but I make no bones of the fact that if I had to choose between this and some offering of the status of bonds in the market place, I would choose the latter.

COMMISSIONER MacKEEN: To turn to another matter, that is that the banks or the large financial

Isn't it one of their difficulties that a lot of those banks had their investments in long-term assets that could not be liquidated and therefore they could not pay their depositors?

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COMMISSIONER [illegible]: Thank you.

institutions should be willing to permit or to advance part of their investments in risk ventures so called, or development, or whatever one wants to term it, there is certainly a duty that devolves on the investments in those institutions. I was wondering, you have some issues with sinking funds in the Province of Manitoba.

HON. MR. ROBLIN: Yes.

COMMISSIONER MacKEEN: Not all of them I take it.

HON. MR. ROBLIN: Well, as far as the province itself is concerned, on our direct issues we pay 3 per cent sinking fund. For utilities we have 1 per cent sinking fund and 4 per cent interest accumulation. So that in all of our direct and those guarantees there is a sinking fund, and I think I am correct in saying that almost all of our municipals there is some sort of sinking fund or annual repayment feature as well.

COMMISSIONER MacKEEN: Some provinces handle that directly, the sinking fund, and in other cases they go to institutions. I don't know how Manitoba handles it.

HON. MR. ROBLIN: We handle the sinking funds for our own direct issues and for those of our utilities.

COMMISSIONER MacKEEN: To get back to the 10 per cent or whatever the percentage was to go into risk capital, would you consider that as a good medium of investment for a proportion of your sinking

institutions should be willing to permit or to advance part of their investment in [illegible] ventures so called, or development, or whatever one wants to call it. There is certainly [illegible] the [illegible] involved [illegible] in those institutions. [illegible] some issues with sinking funds [illegible] Manitoba.

HON. MR. ROBLIN: Yes.

COMMISSIONER McKEEN: [illegible]

[illegible]

HON. MR. ROBLIN: [illegible] the province itself [illegible] pay 2 per cent sinking fund [illegible] 1 per cent sinking fund and 4 per cent [illegible] accommodation. So that in all of our direct and indirect guarantees there is a sinking fund [illegible] all of our municipals [illegible] some sort of sinking fund [illegible] [illegible] as well.

COMMISSIONER McKEEN: [illegible] that the sinking fund [illegible] they go to [illegible] [illegible] it.

HON. MR. ROBLIN: [illegible] handle the [illegible] [illegible]

COMMISSIONER McKEEN: [illegible]

[illegible]

fund?

HON. MR. ROBLIN: Not of our sinking fund but our other funds. You are touching on a good point here, because what is sauce for the goose is sauce for the gander. What we have done with our sinking fund is we have used it extensively in the support of our municipal and school board issues. You will find that in these sinking funds and also in the pension retirement fund and the workmen's compensation funds which we do not directly control but we have some influence on, let us say, there has been a very proper diversification of their activities into our own local requirements.

Now, with respect to the point as to whether they should go into risk capital measures, I really see no reason why not. In fact I might possibly persuade some of those bodies to buy some of the issues of the Manitoba Development Fund, I may get a little money out of them perhaps to bolster up this fund, but whether or not that individual fund, we are committing a certain proportion of the capital of the people of our province to those sort of elements and it might be that we should look after it by getting some contribution from these other funds mentioned, which is not beyond the realm of possibility.

COMMISSIONER MacKEEN: I believe the basic idea was that at bond issue maturity they may have something which was covered with sufficient incentives to pay it up, but if part of that money were in a long-term risk venture it might be difficult to realize on it at the time that the maturity of the issues came due.

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HON. MR. ROBLIN: That would be the case, but I do not visualize placing those institutions in that position. I would have an intermediary step. I think I would ask them to take this pattern of security, agreeing to take both these risk ventures and, with them, buy the securities of the vehicle that is going to do this, for example the Manitoba Development Fund, and that there should be a continuing market for securities of the Manitoba Development Fund. So that if one has to redeem a bond issue and one needs that money, there is a market by which one can liquidate that investment.

As far as the province is concerned, we always have a strong line of action in that we always have that volume in there to be placed, invested from time to time, long and short term, and we can so organize our affairs that this would not present a problem.

Of course with any suggestion I make about risk capital that is a factor that has got to be considered. You just cannot go into it without considering that, but I do think it is not really too difficult to devise a suitable way of hedging yourself against that situation.

COMMISSIONER MacKEEN: Suppose you did not have this revolving fund, Mr. Premier, and you were a trust company governing a sinking fund for a province. Would you feel that as a trust company you would be justified in putting in the fund risk capital securities?

HON. MR. ROBLIN: Under certain circumstances. If for example the type of machinery that I have been trying to sketch were in use, that you

HON. MR. POPLIN: That would be the case but I do not visualize placing those institutions in that position. I would have an intermediary step. I think I would ask them to take that pattern of security, agreeing to take both these [illegible] ventures and, will help buy the securities of the vehicle that is going to do this, for example the Manitoba Development Fund, and thus there should be a continuing market for securities of the Manitoba Development Fund. So that if one has to redeem a bond issue and one needs that money, there is a market by which one can liquidate that investment.

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[illegible] Suppose you did not have this [illegible], Mr. Poplin, and you were a trust company, seeking a [illegible] for a province. Would you feel that as a trust company you would be justified in [illegible] in the [illegible] capital securities?

HON. MR. [illegible]

circumstances. I [illegible]

[illegible]

actually took this money and instead of investing in issues of another fund you invested it in the issues or securities of the Manitoba Development Fund for which in turn there was a general market, then we could do so with relative ease of mind. Then when the time came this money could be recaptured for the use for which it was intended.

I do think that we could find some way to hedge ourselves against that situation, and I do not think it would be wise to overdo it, but I am not suggesting that major portions of the money should be used in this way. I would be satisfied if the institutions, in other words, would invest what they are entitled to do under the statute in that kind of security. I think that would probably satisfy me because I think they are not anywhere near that ceiling at the present time.

COMMISSIONER MacKEEN: Then I believe the large institutions, the insurance companies especially, which are entitled to 5 per cent in equities of a seasoned nature, who have paid dividends on their common stocks for a period of years and so on, it has been suggested quite largely that there just are not enough of that class of security to go around.

HON. MR. ROBLIN: Well, that may be the case

COMMISSIONER MacKEEN: They have been met by a very low, lean basis for that reason.

HON. MR. ROBLIN: There may be difficulties there, I don't know that. If one looks at the charts

actually, [illegible] this money and instead of investing it in the issue of [illegible] had you invested it in the issue of securities of the Maricopa Development Fund to which in turn there was a general market, then we could do so with relative ease of mind. Then when the time came this money could be recaptured for the use for which it was intended.

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COMMISSIONER [illegible]: Then [illegible] the same institutions, the [illegible] companies, especially, which [illegible] [illegible] [illegible] [illegible] [illegible] have paid a [illegible] on their common [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] enough [illegible] [illegible] [illegible] [illegible]

[illegible] [illegible] [illegible] [illegible]

[illegible]

COMMISSIONER [illegible]: [illegible] [illegible]

[illegible] [illegible] [illegible] [illegible] [illegible]

[illegible]: [illegible] [illegible] difficult

that appeared in the Evening Post on March 31st, one can see that the investment in common preferred stocks is very small indeed. I do not think I am really suggesting that a particular insurance company should go hog wild on this business of risk capital, but I do think that they could take a portion of their resources and perhaps contribute them to a consortium, something like the finance funds for industry they have in the United Kingdom. They have two funds there. What are the names? I believe there is the Finance Corporation for Industry and the Industrial and Commercial Finance Corporation who I think are financed by the government.

COMMISSIONER MacKEEN: It has the effect of spreading the risk?

HON. MR. ROBLIN: That is what I am getting at, and we should not expect any of these institutions to expose these funds to undue risk, because they have their obligations to policy holders and others and it is no use overlooking that, but I do think we could get some of the money they have available into something like the Industrial and Commercial Finance Corporation in the United Kingdom. The government can share in it, they can put it in my little Manitoba fund if they want to and we can spread the risk and we can do an awful lot of good with a very small contribution.

COMMISSIONER MacKEEN: I have always understood (I do not know whether it is true) that they are pretty tough when it comes to making investments themselves. As public bodies or semi-public bodies they do not want to risk too much funds in any new

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[illegible] That is what I am getting at, [illegible] have [illegible] because they have [illegible] risk, because they have their [illegible] to pool [illegible] and [illegible] and [illegible] I would come [illegible] the [illegible] into something like the [illegible] Corporation in the United Kingdom [illegible] the [illegible] they are [illegible] and we can [illegible] of good with [illegible] very [illegible].

[illegible] I [illegible] understand [illegible] are [illegible] investments [illegible]

venture.

HON. MR. ROBLIN: I agree with that and one cannot blame them for that. After all they are also interested in a sound return.

I am not trying to minimize those facts. What I am trying to say is that, given the particular financial structure of our country and the very large amounts of the public savings that are invested in these firms, that there is a wider responsibility that we have to consider other than the ones that are imposed on them at the present time. I think one of them is considering what we are doing with our savings in the developmental and creative side of our economic activity. I do think we should try and devise a better machine than we have now for making some funds available for that particular form of investment.

I am aware that our remarks may appear to be rather harsh or critical of some of these people inthese institutions, and I would regret that, but it is sort of inevitable when you are taking a narrow, regional standpoint, that we feel this probably could be a contribution at the present time. We do not want to overlook the good they do, the soundness of their situation or their responsibilities. That would unwise. But I do think that we could create something like the Industrial and Commercial Finance Corporation in the United Kingdom and get good results with the co-operation of the insurance companies and the trust companies and, if necessary, the government.

COMMISSIONER BROWN: Mr. Premier, one

HON. MR. ROBERTSON: I agree with that and one can not blame them for that. After all they are also interested in a sound return.

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of our prime functions is, of course, the consideration of the different problems in connection with the Bank of Canada. You have a section on that. There are one or two points on which I would like to get some further thoughts from you.

You discussed the possibility of some regional consideration or consideration of more regional problems by the Bank of Canada. When the Bank of Canada was set up this was taken into consideration through the establishment of the principle that the directors would come from various parts of Canada. Do you in fact as a government have consultations at all with Mr. Sprague in connection with this or have you considered discussing this with him?

HON. MR. ROBLIN: No, we have not had any consultations with Mr. Sprague, although I am well acquainted with him personally. Our feeling, I think, would be that perhaps we ought to -- our feeling fundamentally would be this that the Bank, it would probably be fair to say -- I hope it would be fair to say that the Bank is probably advised by their executive committee and officers as to what they do.

Well, no doubt the directors contribute regional points of view and have to finally pass on whatever is done, but I think we would like to see a little more of the regional aspects developed through the working officers of the Bank who have the day-to-day management of it and that kind of thing. We feel that probably a more effective way should be added to the regional representations made by the directors.

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HON. MR. [illegible]: No, we have not had any consultations with Mr. [illegible], although I am well acquainted with him personally. Our feeling, I think, would be that perhaps we ought to -- our feeling fundamentally would be that the Bank -- it would probably be fair to say -- I hope it would be right to say that the Bank is probably advised by their executive committee of [illegible] what they do.

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COMMISSIONER BROWN: Would you consider more directors to assist them?

HON. MR. ROBLIN: No, what I think I would consider is whether or not we ought to adopt some variation of the American system, where they have federal reserve districts which are specially appointed on regional problems. I think that should be considered.

COMMISSIONER BROWN: You mention that and you suggest that perhaps we should try to have regional rates of discount. In the United States of course, while this may occur for very short periods, they quickly seem to adjust to the same thing, and I think that the commission on money and finance they just had down there, under the auspices of the C.E.D. came up with the recommendation that they were too decentralized and they wanted to be centralized more. So it almost appears as though experience has shown many that capital flows easily and it is better to centralize it than to try to decentralize it.

HON. MR. ROBLIN: Well, I have to acknowledge their opinion. I don't think it would deter me from saying that we would like to have more consideration given to regional problems. Whethe we have suggested the best means of achieving this it is open to question, but I think we would still make the request. This brings up one further point, one of the big problems that is in this question of relationship between the direction

consider more direction, to assist them?

HON. MR. ROBARTS: No, I wouldn't think I would consider it worth [illegible] or not we ought to adopt some variation of the American system, where they have federal [illegible] which are specially appointed on regional problems. I think that should be considered.

COMMISSIONER BROWN: You mention that and you suggest that perhaps we should try to have regional [illegible] decentralization in the United States of course, while this may occur [illegible] periods, they quickly seem to adjust to the same thing, and I think that the commissions [illegible] since they just had [illegible] the subjects of the [illegible] with [illegible] commendation that they were too decentralized and they wanted to be centralized now. So [illegible] experience has shown [illegible] and it is better [illegible] that [illegible] regional [illegible].

HON. MR. ROBARTS: [illegible] I have to acknowledge [illegible] I don't think it would [illegible] like to [illegible] more [illegible] regional problems [illegible] [illegible] something [illegible] I think we would [illegible] making [illegible] This is [illegible] point [illegible] of the big problems that [illegible].

of the Bank of Canada as represented by the Governor and the Government of Canada. We all know what happened last June and the statement by Mr. Rasminsky that he thought there might be an amendment of the Bank Act to make this more explicit.

COMMISSIONER BROWN: You suggest almost there should be instead of just one boss of the Bank of Canada possibly 11 bosses?

HON. MR. ROBLIN: Well ---

COMMISSIONER BROWN: Would you like to develop this a little further. I would just like your thoughts.

HON. MR. ROBLIN: If I do I go too far, because I do not think we contemplate with any satisfaction 11 bosses. It is hard enough to get along with one. I don't think I would like to suggest that. What I am trying to say is that we think that the Bank of Canada should pay more attention to the regional situation in considering their problems than we believe they do at the present time.

I come back again to my example of 1956 when a measure was imposed which was perhaps quite justified in the major sense of Canada which was not, in my opinion, justifiable in Manitoba. We feel if the Bank could devise some method of weighing regional considerations a little more than they do now that would probqbly be sufficient. That is the kind of problem we are getting at. We recognize the difficulty of this because it is obvious in the financial machinery one has to consider the nation as a whole

of the Bank of Canada as represented by the Governor and the Government of Canada. We all know what happened last June and the statement by Mr. Rasminsky that he thought there might be an amendment of the Bank Act to make this more explicit.

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as the terms or fundamental responsibility of the Bank, but we do feel there is room for more consideration of the regional situation at the same time although not to the extent it would subvert or undercut what is necessary in the national interest.

COMMISSIONER GIBSON: On this point do I take it from what you have said, Premier Roblin, your thinking in regard to the decentralization of the Bank of Canada's functions would tend towards having more senior officers spread around the country and the setting up of reserve banks, as the Americans have, under a national board?

HON. MR. ROBLIN: That might well be a way of approaching it.

COMMISSIONER GIBSON: You do suggest that a little at one point.

HON. MR. ROBLIN: Yes, I think we are faced here with the fact we are suggesting every possible remedy we can think of to our basic problem of more creative, developmental business for the Province of Manitoba. We really do not expect you to accept them all, if you accept any, and I think a good deal of our problem will be met by the "either/or" proposition. If, for example, we were able to secure a better regional development of the Industrial Development Bank, and a better liaison between it and our own fund, and perhaps some infusion of funds into our own fund, that may settle our problem without recourse to these more far reaching propositions with respect to the Bank of Canada. I think it is a question

of balance, and you gentlemen have to weigh which of our suggestions have any merit, and I do not want to leave with you any impression we would like to have all of them, because perhaps our end could be achieved without that.

COMMISSIONER MACKINTOSH: Have you not a close liaison between your Development Fund and the local office of the Industrial Development Bank?

HON. MR. ROBLIN: Unfortunately no. I would like to say we are on good terms with them, but as for getting the results of their investigations or any of the data they have on the regional development or particular cases that come before our fund, no. We have to ab initio get our facts and information together. We cannot understand that. We would like a pretty close working relationship, and I am told by my officers that it is not the case at the present time, and it is due to the regulations of the International Development Bank. One understands the desire to protect the privacy of legitimate rights of the people who deal with them, but we think even with that in mind there could be a greater co-ordination between the two.

COMMISSIONER MACKINTOSH: If they turn down an application and your Development Fund picks it up, do you not get any background or documentation from them whatever?

HON. MR. ROBLIN: The report I receive is, no. We start from the beginning and find out for

ourselves. That is information given me by my officers.

COMMISSIONER BROWN: You bring up the point about the Bank of Canada having the power to act as fiscal agent for the provinces: You say it has never as yet been willing to assume this role. Have you asked them to do that in Manitoba?

HON. MR. ROBLIN: Yes, we have.

COMMISSIONER BROWN: Recently?

HON. MR. ROBLIN: Since I cam into office which is four years ago. I am told it was done a year and a half ago.

COMMISSIONER BROWN: And they declined?

HON. MR. ROBLIN: They declined.

THE CHAIRMAN: What would be the advantage, do you think, to have the Bank of Canada act as fiscal agent?

HON. MR. ROBLIN: I think it may secure us a better place in the market. That would be the principal advantage.

COMMISSIONER HARROLD: In Chapter VI, Premier Roblin, you discuss the specialized agencies there, and the Industrial Development Bank, and you state, I believe, in these paragraphs 1 and 2 that it appears that the International Development Bank has been integrated into the monetary policy of its parent, the Bank of Canada, and the implication is that this is an unsound policy, and if, in fact, the Industrial Development Bank in periods of recession is more active in loaning, do you not think this is something to do with a sounder economy -- more

ourselves. That is information given me by my officers.

COMMISSIONER BROWN: You bring up the point about the Bank of Canada having the power to act as fiscal agent for the provinces. You say it has never as yet been willing to assume this role. Have you asked them to do that in Manitoba?

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COMMISSIONER HARFORD: [illegible] Premier Roblin, you discuss [illegible] agencies

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stability in our economic position?

HON. MR. ROBLIN: My own opinion is that the operation of the chartered banks in that connection gives sufficient stability in that particular phase of the operations of the economy, but my objection or my point of view is based on a concept of what the Industrial Development Bank is supposed to do, which may or may not be a right concept. I look upon it as an agency which is responsible for this whole phase of the creation and development of economic opportunity rather than just another source of obtaining money, and I think the Bank itself is beginning to recognize this because up to a few years ago if you could get money from the International Development Bank you could get it from anybody. I speak from some experience: I was a businessman before I got this job, and my impression in dealing with the International Development Bank in those days was that if you could satisfy them there was nobody you could not satisfy. You may as well stick with your chartered bank, which I did, incidentally. But I think there has been a dramatic change in the bank's outlook recently: Their volume of loans has doubled, and I think they have done a great deal to try and enter into this developmental and creative role I am trying to stress here this morning, and I look upon the Industrial Development Bank as one which should have as its main profession this matter of development and creativity rather than just the rationing out of funds. If that view of the bank's role is correct, then I think the

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comments we make follow; if it is not correct, then the comments do not follow.

COMMISSIONER HARROLD: You suggest they probably should be separated from the Bank of Canada: If that were done, would it be in your best judgment -- would you think of it as a Crown Corporation, or under an agency, or under one of the departments of the Federal Government?

HON. MR. ROBLIN: I would imagine it in the same role as our Manitoba Development Fund here, and that is, it is a Crown agency but it is at arm's length from the executive branch of the government. I do not think it is desirable for the Cabinet or any group of that sort to be running the Manitoba Development Fund. You should choose for them a competent board of management and let them run themselves on a business like basis, and if they are not at arm's length from the executive branch you are headed for trouble. I suggest if anyting happens about the International Development Bank it should be at arm's length from the federal authorities. It should be given clear terms of reference which stress the developmental aspect of the matter and left on its own to do the job.

COMMISSIONER HARROLD: When you get to your explanation of your own Manitoba Development Fund and the Community Development Corporation, would you like to elaborate a little further on just exactly how they are financed and how they work here in Manitoba?

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COMMISSIONER HARROLD: After you get to your explanation of your own Manitoba Development Fund and the Community Development Corporation, would you like to elaborate a little further on just exactly how they are financed and how they work here in Manitoba?

HON. MR. ROBLIN: I could supply the members of the Commission with the Act under which this fund operates. I can roughly describe its activities: Its main emphasis is on the creation of new employment in the Province of Manitoba. It is creative and developmental in its approach to these problems, and it is limited to assisting the operators of operations which will provide new jobs. We are not, for example, dealing with people in the distribution industries or trade of that sort. We are interested in manufacturing plants and the tourist industry in the main. So, we are interested in creating new jobs, and that is the whole focus of this thing rather than just lending money. This is the theme underlying all I am trying to say about this today -- lending money to manufacturers and people who are going to provide employment, and the tourist industry; it can provide money for the local development corporation -- going out to a small town in Manitoba and suggesting they organize into a corporation and collect $50,000 or $60,000 and apply it to some industry, and our Development Fund will come up with some of the money. So, we get a partnership of that sort. Incidentally, one of them just declared a 6 per cent dividend the other day, so that is working in the proper way. So, this Fund has these three purposes.

It also provides technical and business advice and guidance to the people who are borrowing from it, and it works in close co-operation with the Department of Industry and Commerce because the

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actual function of the creation and development of these new opportunities is shared, in a sense, between our Department of Industry and Commerce and the Bank. The Fund uses the research facilities of our Department of Commerce to find these opportunities, but the fund alone decides whether the particular investment is sound. They have that whole responsibility and they are not interfered with in carrying out their business. So, you have a situation where we can supply complete market studies, business advice, feasibility studies, business assistance, location information, promotion, and all that kind of thing with a view to recognizing these new opportunities and therefore increasing the employment possibilities of the province.

The source of funds at the present time is exclusively the government of Manitoba. We supply money on two terms: One is debenture capital which we supply and on which they pay us interest slightly in excess of the current provincial borrowing rate; and the other is share capital on which they pay no interest but which in due course we expect will be eligible for dividends and other returns of that sort.

As of February of this year they had approved loans in the neighbourhood of $10 million. About $6-1/2 million was outside the Winnipeg area which indicates the present need for credit in rural Manitoba. We estimate that their activities have resulted in $18 million worth of investment, dollar for dollar, between the Fund's contribution and the private owners'

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contribution, and that it has increased factory production by about $13 million, tourist revenue by $600,000, and the estimated direct increase in employment is 1,228 persons, and in this province that is a very helpful increase in our employment opportunities.

They are managed by an independent board of directors, and there is no governmental interference in the affairs of the Fund, and all decisions concerning their operations are made in an impartial and business-like manner by the board of directors.

Loan enquiries are developed through the Department of Industry and Commerce, chartered banks, community development corporations and other people who know about it, and first of all we like to be sure they have investigated the regular sources of credit. We are not interested in competing with banks or the International Development Bank or anybody else who has got money. We are only interested in supplementing and coming in on these propositions which cannot be financed in the usual way. One of the advantages we have is that everybody being here together we get pretty quick decisions as to what is needed, and the people on our board are familiar with the personalities involved. I may be wrong, but I put great stress on this knowing the people you are dealing with, particularly in credit matters of this sort, and the fact our directors know, perhaps well, many of the men that come before them for credit, and they know the local circumstances down to the last

contribution, and that it has increased the [illegible] production by about 3.3 million. Tourist revenue is $600,000 and the estimated direct increase in employment is 1,228 persons, and in this province that is a very helpful increase in our employment opportunities.

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T -- they have been through the problems of being successful businessmen in Manitoba themselves, and they understand it, and we think that helps us to be rational and also helps in dealing with these applications that come before the Fund and which do not appeal to other people who do not have the same set of facts and knowledge that our board of directors has.

The security varies, but as a rule it is on real property or chattel mortgages.

I don't know whether there is anything else you would like to know. I can let the Commission have the last annual statement and a copy of the Act and that sort of thing so that you can get the technical details.

COMMISSIONER HARROLD: Does the Fund have any continuing management interest or supervision of the industries it loans to?

HON. MR. ROBLIN: Yes, where necessary. I think in many, many cases it may not be required, but where we feel some kind of consultation is necessary we have the opportunity to look after it.

COMMISSIONER HARROLD: Do the interest rates that are charged vary with monetary policy and the interest rates generally?

HON. MR. ROBLIN: They have to be half of one percent above the provincial borrowing rate -- that is the minimum they can charge. Yes, it is half of one per cent over the provincial borrowing rate up to 7 per cent -- depending on the nature of the borrower. Also, other things being equal, we try

to have our rate a little above the International Development Bank as well because that is a pretty direct encouragement to make sure they have exhausted the patience of that organization before they come to us.

THE CHAIRMAN: I think there will be a few questions in addition to be asked, and maybe it would be convenient to adjourn, Mr. Premier, if you are available tomorrow morning.

HON. MR. ROBLIN: Thank you very much, Mr. Chairman. I would like to do my best to answer the questions as long as there are any, and I can come back and do that. Our House sits at 2.30 this afternoon, and I see from the order paper that I am in for a pretty busy afternoon there.

THE CHAIRMAN: Yes, we understand that and we can proceed this afternoon with other briefs. So, if it is convenient to you, we would like to have you available for some further questioning. We will adjourn now until 2.30 this afternoon when we shall hear the submission of Professor Barber.

--- Luncheon adjournment.

--- At 2.35 P.M the hearing commenced.

THE CHAIRMAN: We shall now proceed with the submission to be made by Professor Clarence L. Barber.

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SUBMISSION OF PROFESSOR CLARENCE L. BARBER, UNIVERSITY OF MANITOBA

MR. BARBER; Mr. Chairman, members of the Commission, rather than simply read the summary of my brief I would like, if I may, to only underline three or four of the major points that I make in the written brief

The first point I would like to emphasize is the difficulties which Canadian economic policy faces because of our situation vis-a-vis the United States. If we try to carry out economic policy and it differs or varies sharply from the policy being carried out in the United States it may give results which would differ substantially from the situation if we were more or less independent or isolated and I think the conversion loan is an example of this type of policy. Certainly things can be said in its favour viewed as an operation for a country which is independent completely of other financial markets but I think the evidence is pretty clear because Canada carried out the operation of greatly lengthening its debt at the very time that the United States was moving in the direction of shortening its debt the major impact was to increase sharply the differentiation in interest rates between Canada and the United States

This caused an increase in the amount of funds borrowed in the United States market, raised our exchange rate and caused difficulty for Canadian industry. I raise this now -- it is in my brief --

[illegible]

MR. BARKER: Mr. Chairman, members of the Commission, rather than simply read the summary of my brief I would like, if I may, to very briefly underline three or four of the major points that I make in the [illegible]

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This [illegible] funds borrowed in the United States [illegible] our exchange rate [illegible] Canadian industry [illegible]

as an example of what might be characterized as the wide range of our financial market

For example, to give another possible impact, if you place restrictions on finances in Canada with a view to limiting their borrowings one of the major effects of this may simply be to force them into the United States market.

Now, I was told personally by an executive of a small finance company about a year ago that they had borrowed something like $8 million to $10 million from banks in the United States on short-term loans simply because they could not get the funds in Canada. Since they were borrowing this at a time when there was substantial unemployment in Canada the effect was to raise the exchange rate and to increase unemployment in Canada. So I would suggest there is a need to examine all our financial institutions and our monetary policy to look rather closely at the inter-relationship between Canadian and American rates.

The second point I would like to emphasize again is one which I think has not had enough attention in Canada and that is the close relationship you may get between the amount of government indebtedness and the amount of our foreign indebteness. I think that you could say, gentlemen, the more willing we are to incur a government surplus or on the average the smaller the government deficit the less we are going to have to resort to foreign capital markets to finance our capital programme in Canada. The larger,

as an example of what might be [illegible] as the wide range of our financial market.

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The second point [illegible] would like to make [illegible] again is one which I think has [illegible] in Canada and that [illegible] you may get between the amount of government [illegible] debt [illegible] and the amount of [illegible] debt [illegible] that you could say, gentlemen, the more [illegible] we are to incur a government [illegible] the smaller the government deficit [illegible] we are going to have to [illegible] to finance our capital programme in Canada. [illegible]

on the average, our deficit the smaller our surplus, the more dependent we are going to be on foreign funds to finance capital investment.

I think it is an important consideration when you realize that government expenditure levels have been rising in Canada to a degree, for example, where government expenditures were at the level of exceeding 40 per cent of our national income and had increased from a level of about 34 per cent in 1953. As this trend continues you can see it is going to be more difficult for governments to finance or to raise the taxes under the circumstances let alone finance a substantial surplus which would be required if we were going to finance a larger part of our total investment programme in this way

In that connection I might say that the data which I presented in Table 3 on page 8 of my written brief, I think, pointed out the decline and the extent to which Canadian savings were financing over-all capital investment in Canada and perhaps even understates the problem because in that Table I do not take any account of undistributed profits of corporations which really accrue to the United States. In that Table I was counting those as Canadian investments. If you make allowances for this the picture is even more worse in terms of the share financed through Canadian savings.

So I think it would be very worthwhile if the Commission were to recognize as part of their study the movement of the rising level of foreign

indebteness and total effect of this on our over-all balance of payments situation.

The net debt, I think, in 1961 had reached $18 billion. If that were to yield even 5-1/2 per cent dividend and interest it would involve the net payment in the balance of payments of upwards of $1 billion or approximately $1 billion.

I think we are a little too prone to assume that capital inflows are always per se desirable and yet I think you can see that over the last three or four years they have become excessive, they may seriously harm part of the economy and there is a problem not only of finding sufficient capital funds and being able to obtain them from other countries, there may also be the problem of trying to prevent a flood of capital buying up Canadian companies or financing -- by interest differentiation -- financing Canadian municipalities with the effect that there is an over-valued rate of exchange and a harmful effect on the economy.

The third point I wanted to emphasize was the effect which a fluctuating exchange rate can have on the economy generally. A free rate, I think, has certain advantages. Certainly it tends to limit the possible impact of de-stabilizing the capital movement and because of our proximity to the extremely large United States capital market this is an important consideration but I think we must also recognize that a swing from par to a premium of 5 or 6 per cent and a movement back again to 4 or 5 per cent changes very

balance-of-payments effect [illegible] [illegible] [illegible] [illegible]

[illegible]

The net debt, I think, in 1963 had reached $18 billion. If it [illegible] were to yield even 5 1/2 per cent dividend and interest it would involve the net payment in the balance of payments of approximately $1 billion or approximately $1 billion.

I think we are [illegible] to [illegible] [illegible] [illegible] that capital inflows are always [illegible] [illegible] and yet I think you can see that over the past three or four years they have become [illegible] [illegible] [illegible] seriously harmful to the economy and there is a problem not only of [illegible] [illegible] [illegible] capital [illegible] and being able to contain them from [illegible] [illegible] [illegible], there may also be the problem of [illegible] [illegible] [illegible] a flood of capital [illegible] [illegible] Canadian [illegible] [illegible] financing -- by [illegible] [illegible] [illegible] [illegible] [illegible] Canadian [illegible] [illegible] [illegible] [illegible] the effect that [illegible] an over-valued [illegible] [illegible] exchange [illegible] [illegible] [illegible] effect on the economy.

The third [illegible] I would [illegible] [illegible] is the effect which [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] on the economy [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] possible impact of [illegible] [illegible] [illegible] [illegible] and because of [illegible] [illegible] [illegible] [illegible] United States capital market [illegible] [illegible] [illegible] consideration [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] away from [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] and a movement back [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]

substantially the terms on which Canadian manufacturing industries compete with industries in other countries. And if Canadian manufacturers have to be prepared to undergo these alternate periods of stimulation or penalization they are likely to be inhibited from perhaps expanding the length of their range of operations as much as they might and they may have difficulty embarking on longer range production plans.

Finally, I would like to say just briefly that it is still my feeling that the general level of interest rates in this country at the present time is higher than can be justified economically in terms of the best interests of the country. I think that there is a lot of inertia and a lot of thinking makes it so in interest rates. Roughly, I think the situation is that the impact of the conversion loan raised the whole rate of interest levels in Canada and while they have moved down somewhat relative to those in the United States which apparently because of balance of payments is pursuing a rather restricted monetary policy, they still are higher than I can find any justification for on economic grounds.

I have suggested several ways in which the Bank of Canada might take some action to bring them down. I think part of the difficulty is that there is a reluctance to increase the money supply sufficiently to bring them down partly because there are a lot irrational fears about this problem of increasing the money supply.

With those four points I think I have under-

substantially the terms on [illegible] Canadian [illegible] industries compete with [illegible] other countries. And if Canadian [illegible] to undergo these alternate periods of [illegible] stimulation or penalization they are likely to be [illegible] perhaps expanding [illegible] their operations as much as they might [illegible] they may have difficulty [illegible] or [illegible] production [illegible]

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[illegible]

lined the points which I would like to draw to your notice and I would now be glad to answer any questions you might care to direct.

COMMISSIONER MACKINTOSH: Professor Barber, I know the members of the Commission have read your brief with great interest. It does touch on some of the central points which the Commission will have to consider. Perhaps it is the first brief we have had as yet which touches on these particular points as directly as yours does.

I would like to be sure I understand your argument fully. In your third paragraph referring to the period from 1954 to 1957 you say that the flexible exchange rate made it possible for Canada to achieve this adjustment with remarkable smoothness. Would I be correct in inferring from that that you think in that period just before 1957, the monetary policy was about right?

PROFESSOR BARBER: Yes, I think that certainly up until the middle of 1957 that we needed a fairly restrictive monetary policy given the fact that we did not choose to use fiscal policy to a larger extent that we did. I would agree to that.

COMMISSIONER MACKINTOSH: Do you think there is any argument in favour of the policy in that period being a bit more restrictive?

PROFESSOR BARBER: Well, it is easier to be wise afterwards, I think, but I have not really examined it in that much detail. I think we had a very major increase in capital expenditures going

lined the point with [illegible] to you [illegible] office and I would now be glad to answer any questions you might care to direct.

COMMISSIONER MACKINTOSH: Professor Barber, I know the members of the Commission have read your brief with great interest. It does touch on some of the central issues which the Commission will have to consider. Perhaps, in a sense, it is [illegible] we have had as yet which touches on these basic issues points as directly as yours does.

I would like to [illegible] your argument fully. [illegible] you think [illegible] referring to the period from 1950 to 1953 [illegible] exchange rate [illegible] Canada [illegible] this adjustment with [illegible] be correct [illegible] that period just before 1957 the monetary policy was about right?

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COMMISSIONER MACKINTOSH: [illegible] think there is any argument in favour of the policy in that period being a bit more restrictive?

PROFESSOR BARBER: [illegible] otherwise [illegible] I think. But [illegible] examined it in that much detail [illegible]

forward at that time and I think we perhaps might have leaned a little more in terms of the restrictive direction but I am not sure that this would have had very much over-all effect on the situation. I think that given our proximity to the United States at best it might have forced the exchange rate a little bit higher, raised interest rates here a little bit sooner and a little bit further but I think that over-all the difference would not have been very substantial.

COMMISSIONER MACKINTOSH: Well, looking at the later period which you go on to and in which you describe the economic policy as being unbelievably bad, without laying any stress on your lack of credulity, you say that the policy of higher interest rates and less fiscal policy in what should have been really low interest rates and tight fiscal policy, assuming that the government were forced or because the federal budget is pretty highly geared, assume that the government either perforce or of choice had determined on its fiscal policy, would the bank have gone along with easy money?

PROFESSOR BARBER: Well, I think there would have been a great deal of benefit even in having used easier money in those circumstances. I think that in some degree the looseness of the fiscal policy was the result of the tightness of the monetary policy. It was because the higher interest rates encouraged a large capital inflow and kept the exchange rate higher which tended to discourage production and employment in Canada and the government then felt

compelled to increase its expenditure in an effort to raise the level of employment or increase the transfer of payments. So that if we had an easier monetary policy I think almost inevitably we would have had some increase in the tax revenue and some decline in the size of your government deficit. I think the real complicating thing was the conversion loan. It raised the whole level of interest rates and from this point on you would have had a fairly courageous and drastic monetary policy to bring the rates back down.

COMMISSIONER MACKINTOSH: I would like to ask something about that in a moment. Then you go on to the period from 1959 to 1961 where you think that the need for foreign capital was declining and the interest rate spread between Canada and the United States widened and you suggest that this maintained the capital inflow and kept up the Canadian policy. Do you know what changes there were in that period in the composition of the capital inflow?

PROFESSOR BARBER: Well, I have looked at it at times and the volume of direct investment seems to have fluctuated up and down in some measure. There was, I think, a fairly large increase in portfolio investment in 1959.

COMMISSIONER MACKINTOSH: The inference you draw is that portfolio investment business became a major fraction or a very significant fraction of the total?

PROFESSOR BARBER: Yes, I do not think we

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COMMISSIONER MACKINTOSH: The inference you draw is that portfolio investment business become a major fraction or a very significant fraction of the total?

know really enough about direct investment. It seems to be to some degree sensitive to interest rates. Also, I think this is something we need to know more about.

COMMISSIONER MACKINTOSH: Does not that add up to the fact that while there is an assumption of insurance that interest rates are more comparable with those in the United States, the inflow of capital will be less but we cannot infer how much less it would have been.

PROFESSOR BARBER: No, I think that it is customary in a way to look at the way the American measure of deficit was moving before the conversion loan. If you look at the seasonally adjusted quarterly debt -- and I have not actually included this in my statement -- I have looked them up since and I will just mention one, In the second quarter of 1957 when the boom was at its peak the current deficit was about $1.7 billion, it was already falling down in the second quarter of 1958 to $868 million. In other words, it has moved down almost by a half and suddently after the conversion loan it moved up very rapidly again which would indicate that this had a major effect on the situation. Now, undoubtedly some recovery from the recession was a factor here also, but it seems to me in this period the policy never seems to have been clearly focussed on what was one of the basic problems.

COMMISSIONER MACKINTOSH: I am not arguing that the influence would be in a different direction from that which you suggest, but your brief

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COMMISSIONER MACKINTOSH: I am not arguing that the influence would be in a different direction from [illegible] you suggest [illegible]

rather suggests that a lower interest rate would have wiped out this capital inflow.

PROFESSOR BARBER: I don't think I intended that. I think the problem really was not to eliminate it entirely, anyway, and I think if you could have brought the current account deficit down even by half in this period it might have gone a long way to solving the problem. I don't think we know enough about the effect of interest rates on capital inflows. I think it needs a good deal more study. I think there is a lot of rigidities in the capital market, and there may have been some other factors operating in this period. In other words, Canada may have benefitted from capital fleeing from other places for political reasons, and this may have been an added factor in increasing the inflow.

COMMISSIONER MACKINTOSH: I think that is substantially my point. I may have over-emphasized or exaggerated your interpretation, but I felt we really didn't know enough to justify what I understood was the extent of your contention.

You have some fairly absolute statements about the conversion loan, and a lot of other people have also, and you argue that this and not higher interest rates in Canada than in the United States was the main if the not the sole cause of our difficulties. You say the loan reduced liquidity and the bank refused to supply loans. I am not sure I can distinguish adequately your reasoning and the bank's refusal to supply more cash which is, of course

rather suggests that a lower interest rate would have wiped out this capital inflow.

[illegible]

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COMMISSIONER MACINTOSH: I think that is substantially my point. I may have over-emphasized or exaggerated your interpretation, but I felt we really didn't know enough to justify what I understood was the extent of your contention.

You have some fairly cogent statements about the conversion loan, and a lot of other people have also, and yet I argue that this was not higher interest rates in Canada than in the United States was the main if they not the sole cause of our difficulties. You say the loan reduced liquidity and the bank refused to supply loans. I am not sure I can distinguish adequately your reasoning and the

its normal process in tightening money and raising interest rates. I am not quite sure how you separate these things. They seem to me to be all part of the same set of circumstances. I wasn't quite sure about the loan operation. Do you think the conversion loan was wrong in principle or that it was ill timed or that it was conceived on too large a scale?

PROFESSOR BARBER: Well, I think certainly in terms of its effects, it was a mistake to try to carry out such a large operation, and my feeling was that perhaps none of us would have predicted in advance it would have had this effect on interest rates, and yet I think the evidence now is fairly clear that it did, and I think the logic of this is that if you take away from a lot of investors some fairly short-term bonds, and if you give to them in exchange some very long-term bonds, they are going to feel less liquid. Long-term bonds are more subject to price fluctuation, and in compensation they will want to hold more cash to balance their portfolio. This is what I meant by this increases their liquidity.

COMMISSIONER MACKINTOSH: But nobody took any bonds away from anybody.

PROFESSOR BARBER: No, but you exchanged them at a price, and you sort of induced them to take that. Temporarily you increased the money supply a good deal during the operation and reduced it fairly sharply in relation to national product afterwards So, I think the combined effect was to raise interest rates sharply. I think the reason was they were no

normal process [illegible] tightening [illegible] raising interest rates. I am not quite [illegible] these things. They seem to me to [illegible] of the some set of circumstances. I won't [illegible] the loan operation [illegible] was wrong [illegible] that it was conceived [illegible]

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(COMMENT OFF MICROPHONE.) [illegible] took any bond away [illegible]

PROFESSOR RAINEY: [illegible] exchange them [illegible] that. [illegible] a good deal [illegible] sharply [illegible] So, I think [illegible] rates [illegible]

longer willing to hold the same volume of bonds, now long-term instead of short-term, at the same ratio of money to the Gross National Product, because they felt less liquid and they were only willing to hold them at higher interest rates.

COMMISSIONER MACKINTOSH: Could you offer any explanation as to why, having accepted the exchange voluntarily, then a few weeks or a couple of months later the situation which they themselves had made of their own choice was unacceptable to them?

PROFESSOR BARBER: Well, it was not, I think, so unacceptable. I think, if you look at Chart I it would appear that the relationship between money supply and interest rates shifted up fairly sharply, and the shift occurred some time between the third and fourth quarter of 1958. It is true what was happening in this period, I think, was obscured by the fact that this was also the period in which prices were still rising in the midst of recession, and there was a lot of talk about a shift away from equities, and this was probably an additional factor occurring at the same time, and I think you can ---

COMMISSIONER MACKINTOSH: A shift away from equity?

PROFESSOR BARBER: A shift away from debt -- a shift to equity, and away from debt, I am sorry. In the fourth quarter of 1958 the ratio of money supply to Gross National Product was the highest it had been since 1954. So, I think an additional

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COMMISSIONER MACKINTOSH: A shift away from equities?

PROFESSOR BARBER: A shift away from debt to shift to equity, or away from debt, I am sorry. In the fourth quarter of [illegible] the ratio of money supply to Gross National Product was the highest

reason why temporarily they were willing to hold them was that temporarily the money supply was increased substantially, but then it was later reversed.

COMMISSIONER MACKINTOSH: Or, rather, held.

PROFESSOR BARBER: It was held in the face of a fairly significant recovery, so that the ratio was reversed.

COMMISSIONER MACKINTOSH: I am not very familiar with these market facts: Was there not subsequently a shift in the United States to make life more difficult for the converters?

PROFESSOR BARBER: Chart 3 and Chart 4 show the situation in the United States, and they do not indicate any shift of anything of the same order of magnitude.

COMMISSIONER MACKINTOSH: No, but I would think they did indicate that part of the shift that you see in the Canadian chart was common to both of them.

PROFESSOR BARBER: Yes, I think this is true.

COMMISSIONER MACKINTOSH: And there were special conversion loan factors in addition depicted on the Canadian chart. I take it that part of the occasion for the refunding operation was to establish a base for higher interest rates; the terms of the refunding were, on the face of it, pretty generous. I notice later in paragraph 13 you advocated -- well, before I go on with that, might I interject something:

It is not of my own knowledge, but some people told me that the comparison between long-term Canadian government bonds and long-term United States government bonds is not very relevant in that there are so few of the United States government bonds and that the actual traders can be compared to Canadian long-term government prices with AAA corporate bonds in the United States. Another aspect depicted in the chart was the difference in behaviour between Canadian and American corporate bonds is not as distinctive as the difference between government bonds during other periods. However, that is by the way.

You mention later you think there may be a need for the bank to intervene more actively in the long-term market to the extent of actually announcing buying and selling prices such as they did for a period after the war, but on the other hand we get great criticism from some people in the bond market of this kind of meddling in the long-term market, and the belief of the dealer, making a view of his own rather than trying to guess what the Bank of Canada is going to do when it is in and out of market daily.

PROFESSOR BARBER: I don't think I would like to see -- perhaps I didn't emphasize this sufficiently -- the Bank of Canada in the market perhaps always on a continuing basis, but it seems to me when they somehow, I feel, lost control of the interest rate situation in 1959 and 1960, and I think the differentials that developed, where you can compare corporates with AAA bonds were much wider

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PROFESSOR BARBER: I [illegible] would like to see [illegible] sufficiently -- the Bank of Canada [illegible] perhaps always [illegible] me when they somehow [illegible] interest rate [illegible] 1955 [illegible] and I think the differentials that developed [illegible] compare corporates with AAA [illegible] were much wide

than the situation called for, and I think given that fact interest rates do seem to develop a certain rigidity, however you explain it, that one way in which you may re-establish levels which you think are more in the interest of the economy would be for the Bank of Canada for a time to pursue this policy and continuing with it until the market had adjusted the money supply until it felt it had what was needed to sustain a significantly lower level of interest rate. I think if you are going to operate a freely operating exchange rate you have got to pay interest to this differential effect on capital inflows, and you have got to avoid these very substantial widening differentials such as occurred in 1959 and 1960.

COMMISSIONER MACKINTOSH: I would agree that with the fluctuating exchange rate the interest differentials are important. I am not sure whether the market would not adjust itself to those if the money supply were adequately managed.

Well, I have other things I would like to ask you at some point, but I do not want to monopolize this discussion.

COMMISSIONER GIBSON: Professor Barber, one or two questions on the lines Dr. Mackintosh has already explored a little with you. You said that in 1959 and 1960 the spreads of interest rates between Canada and the United States were unusually wide, and it seems to me there is a lot of evidence to support this view, and I certainly would not take exception to it. However, going on from there to 1961 and 1962 --

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particularly to 1962 -- I wonder if one of the points Dr. Mackintosh raises in regard to these charts might not put a rather different complexion on the picture. My understanding is -- and I am sorry I do not have the material with me -- if you do this comparison using Grade A corporate bonds of the United States, that you do not get the striking difference between the two countries, particularly in the behaviour more recently. In other words, if long-term American bonds are scarce now -- which they are; long-term U.S. Governments are scarce; there are very few in existence, and long-term Canadian Governments are not so scarce -- it is quite possible there is an artificially wide spread between these two resulting from the fact of one being scarce and the other not being scarce, and therefore I just wonder how strongly you advance the view that this excessive spread in the interest rates is still continuing? Would you care to say a word about that?

PROFESSOR BARBER: Well, I think perhaps I should look at this further evidence. I did have some studies carried out comparing some differentials, but I didn't have time to complete some of the other differentials in time for this submission. I don't think that there is in the current unemployment situation any real justification for provinces and municipalities and other large borrowers still going to foreign markets. I think to the extent some of this still occurs, then the differential is still too wide, and I have heard of some cases where it is still going on

particularly to 1962 -- I wonder if one of the points Dr. Mackintosh raised in regard to these [illegible] might not put a rather different complexion on the picture -- my understanding is -- [illegible] memory, I do not have the material with me -- [illegible] you [illegible] using Grade A corporate bonds in the United States, that you do not get the striking difference between the two countries particularly in the [illegible] as recently. In other words, the long-term American bonds are scarce now -- which they are; long-term U.S. Governments are scarce; there are very few in existence, and long-term Canadian Governments are not so scarce -- it is quite possible there is an artificially wide spread between these two arising from the fact of one being scarce and the other not being scarce, and therefore I just wonder how strongly you advance the view that this excessive spread in the interest rates is still continuing? Would you care to say a word about that?

PROFESSOR BARBER: Well, I think perhaps I should look at this further evidence. I did have some studies carried out comparing [illegible] interest rate [illegible], but I didn't have time to complete them [illegible] the [illegible] differentials in [illegible] for this [illegible] I do not think that there is [illegible] the current [illegible] any real justification for [illegible] and [illegible] and other large borrowers still going to [illegible] I think to the extent [illegible] this still continues, the differential is still too wide [illegible] and [illegible] some cases where it is still going on

COMMISSIONER GIBSON: As a matter of fact, there has been very little for 10 months -- there is one issue coming up now, I believe, but borrowing abroad by American and Canadian governmental bodies has been very small, and this leads on to one of the sort of general questions I want to ask you: You put a great deal of emphasis on the importance of monetary policy in this country. I do not challenge your view that it is important. These things are all a question of degree, but in the first place I would like to ask you whether you feel that monetary measures are usually effective and can usually be relied upon to get interest rates down in this country, or up -- whatever the case may be -- bearing in mind the fact we have a rather old type economy? In other words, are these responses fairly reliable?

PROFESSOR BARBER: I think the response you want to get -- I mean, I was arguing for the effectiveness of monetary policy in terms of its effect on the size of the current account deficit. If it is effective on amounts of capital inflow, even if the interest does not move very far, it is still effective in the way you want it to be.

I mean, I would not be prepared to argue that monetary policy was very important in a closed economy without any exports and imports, but I think its significance arises out of this relationship it may have with the size of the current account deficit to the interest rate and through the interest rate on the current account deficit.

fact, there has been very little for 10 months -- there is one issue coming up now, I believe, but borrowing abroad by American and Canadian governmental bodies has been very small, and this leads on to one of the sort of general questions I want to ask you: You put a great deal of emphasis on the importance of monetary policy in this country. I do not challenge your view that it is important. These things are a question of degree, but in the first place I would like to ask you whether you feel that monetary measures are usually effective and can usually be relied upon to get interest rates down in this country, or up -- whatever the case may be -- bearing in mind the fact we have a rather old type economy? In other words, are these responses fairly reliable?

PROFESSOR BARBER: I think the response you want to get -- I mean, I was arguing for the effectiveness of monetary policy in terms of its effect on the size of the current account deficit if it is effective on amount of capital inflow. Even if the interest does not move very far, it is still effective in the way you want it to be.

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COMMISSIONER GIBSON: There are circumstances, I think you would agree, where the reactions, what you would hope them to be, -- in other words you get partly perverse reactions. For example, take the situation in 1959. There was a fair amount of additional money went into the system early in the year and after the conversion, but for some reason or other interest rates not only went up but they went up a good deal further. Why was this? Was this because of the timing of monetary policy or was it because people were concerned about the size of the deficits? What I am getting at, there are a lot of factors in this picture. It is not just money supply.

PROFESSOR BARBER: I am aware there is a good deal of discussion, and I think Mr. Coyne once said that the reason interest rates were so much higher in Canada than in the United States was because our government deficits were much larger; but first, if you would look again at Charts 1 and 2 I think there is a very clear relationship there. Throughout 1959 and in successive quarters money supply declined steadily as the relationship to gross national product.

In other words the relationship of interest rate to the money supply looks very regular, almost a straight line relationship.

I have looked at some of the statistics comparing the size of the national accounts basis government deficit in Canada and the United States, and up until the end of 1959 the situation did not seem to be substantially different. I cannot find

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anything in the comparison of the relative size of the deficits that would really explain this interest differential.

Since that time it is true that our deficit has, relative to the United States deficit, increased quite a bit, but up until the end of 1959, when interest rates were virtually at their peak, I cannot see any evidence in this relationship to sort of justify the argument that the reason interest rates were so high was because the governments were borrowing so much.

COMMISSIONER GIBSON: Of course it partly depends on how you calculate the power of money supply in the two countries. The figures I think show that the money supply over this whole period we are talking, 1959-1961, was sizeably greater in Canada than the United States, whatever basis you take, is that correct?

PROFESSOR BARBER: Yes. I think, as I recall, this is true, but I would again say that the United States did not have a large conversion loan and Canada did, and the very fact, as you point out, that a lot of these long-term governments in the United States were scarce. They would have been scarce in Canada, I suppose if we had not had a large conversion loan.

COMMISSIONER GIBSON: On this conversion loan matter, if the conversion loan brought about a change in the public attitude towards liquidity, if the public wanted more liquidity, why was not this reflected in the short-term interest rates, and why

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ever since has the government of Canada had to pay what looked like fairly high interest rates for demand money in the form of Canadian Savings Bonds?

PROFESSOR BARBER: I am not sure that I know the answer to this question. I have thought about this. I think part of the trouble is that what the economists call liquidity preference curve, if for some reason that shifts upwards and everyone gets the idea that a higher rate of interest is now the normal rate of interest, then they may effect that market's attitude to all rates of interest.

COMMISSIONER GIBSON: But you have the situation here in most of the years we are talking about where interest rates have generally been high. Now, there have been short periods when chartered bank rates have been very low in that period, but apart from that Canada Savings Bond rates have been quite high, and this is a pretty good index of the public's interest in liquidity. This is the familiar instrument to everybody.

Now, that phenomenon you are pointing to does not seem to have been reflected in the short-term interest rate structure.

I am not arguing the case against the imposing of differential interest rates between Canada and the United States, but I am trying to figure out how it works.

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There have of course been significant institutional changes in the U.S. market that also have been operating. The corporation hasbegun to enter the Treasury Bill market to a much larger extent there perhaps than here, and this may have increased the demand differentially more for very short-term securities in the United States than it did in Canada. So that for the Treasury Bill rate in particular this may have tended to offset some of these other matters.

COMMISSIONER GIBSON: One other very broad question that to me is very important. The tenor of your submission is -- correct me if I am wrong -- that interest rates here are, if anything, still on the high side, and it would be desirable to try and press for lower. Is that a fair statement?

PROFESSOR BARBER: Yes, I think so.

COMMISSIONER GIBSON: Now, if this is the case, how do you view this in relation to the current exchange rate? It is my impression that the last February and March, rather than being in the position of pushing our exchange rate down, we have been in the position of supporting it because the Exchange Equalization Fund has lost such large amounts of reserves. Do you not think there would be a risk, if monetary policy was pushed further, that it might be difficult, that you would get a further decline in the exchange rate?

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COMMISSIONER GIBSON: Now, if this is the case, how do you view this in relation to the current exchange rate? It is my impression that the last February and March, rather than being in the position of pushing our exchange rate down, we have been in the position of supporting it because the Exchange Equalization Fund has lost such large amounts of reserves. Do you not think there would be a risk, if monetary policy were pressed further, that it might be difficult, that you would get a further decline in the exchange rate?

PROFESSOR BARBER: I think I would not be strongly opposed to some further decline of the rate. It is sort of, I think, difficult to judge what monetary term rate is desirable under the present circumstances. I mean, I would have been inclined, if I were running things, to have allowed the rate to fall some under the pressure that has developed over the last few months.

Now, we don't know enough about it. Some of that may have been the reversal of the speculative flow that occurred earlier from people thinking that wewould have difficulty keeping it down, but if you are free to let your rate vary in some degree, or feel free to, this does protect you in some measure.

I realize the two things are quite closely related, and you may now feel that you are inhibited about reducing interest rates because you do not want the exchange rate to go lower. On the other hand, you have to remember that even in 1961 the current account deficit was almost $1 billion. I have not seen the fourth quarter of 1961 to know what it was on the seasonally adjusted basis. So that it is still desirable to have a psychological incentive for some adjustment in this situation.

COMMISSIONER GIBSON: Yes, we have had a change in the exchange rate over the past 12 month of 6, 7 per cent. You would agree that it is important to keep our cost structure here as relatively low as we can from the competitive point of view, thinking of our current account deficit.

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PROFESSOR BARBER: I suppose this depends on what view you take about the future of the exchange rate. I mean, in some measure ---

COMMISSIONER GIBSON: This is what I am getting at.

PROFESSOR BARBER: If you have got a chosen rate that adjusts to the changes in your cost and your cost structure does not have the same importance it does have in a fixed rate. I have been impressed with what little effect the exchange depreciation has had on price levels in Canada.

COMMISSIONER GIBSON: Isn't there a danger though if the rate goes on down, that you may get a much more dynamic reflex decline in the exchange rate partially offsetting the increase in cost? You said yourself earlier that you were not too happy, or you gave me the impression you were not too happy about the exchange rate going up and down, that it gave stimulus and then it produced restraint. In a way you make it perhaps rather difficult for Canadian industry and perhaps make them a little more conservative than they would otherwise be.

Is it not a situation where you want to look very carefully at the question of the rate going down any further before you went for it?

PROFESSOR BARBER: Well, this is the sort of thing you would want, I think, to look at a lot of the evidence first in terms of comparison of price and cost levels, and it may be that 95 is all right as a long rate and temporary decline to 92 would not

do any significant harm. I am not sure that I know enough about it to make this judgment.

COMMISSIONER GIBSON: You rather intimated this in something you said in the brief, that a range, say, around 95 (I don't that the rate has any particular importance) was getting into this point of exchange rate with limits on this, rather than an absolutely free rates -- 3 points either side of 95 or whatever you choose as your centre. How would you see that operate? Would you leave it alone when it got to either extreme, or would you intervene with the exchange fund whatever was thought appropriate?

PROFESSOR BARBER: I suppose this is something that you learn from experience. I think that if it tended to show somewhat the same stability in the period when it was completely free, then you would not have to intervene very often or very extensively.

COMMISSIONER GIBSON: The difficulty about all the intervening when it gets to either limit is that you are then in the position of what in your view was an absolutely fixed rate.

PROFESSOR BARBER: Yes.

COMMISSIONER GIBSON: You are against the wall, you are defending it.

PROFESSOR BARBER: It is the position that practically all other countries are in.

COMMISSIONER GIBSON: That is true.

PROFESSOR BARBER: And I think that the

Canadian case, you always have the situation presumably that if you tighten interest rates a little you can always borrow more money if you need it to protect the rate. At least that seems to have been our experience.

COMMISSIONER GIBSON: Wasn't it the case that having fixed the rate at a fairly narrow rate, that you then have a monetary policy to support that rate, you have to go for a good deal of freedom of monetary policy?

PROFESSOR BARBER: Yes, I was advocating this. If we feel compelled to abandon a free rate, rather than go to a fixed rate I would prefer this perhaps intermediate stage with some complications, and I think it would mean some greater reliance on fiscal policy and less reliance on monetary policy.

COMMISSIONER BROWN: I would like to ask two questions on the theme, Professor Barber. The first one, getting back to this differential between Canadian and American interest rates, have you prepared any -- these tables you have prepared are based on absolute differences -- I was wondering if you had prepared any tables based on comparative differences.

PROFESSOR BARBER: You mean to say relative to the U.S ?

COMMISSIONER BROWN: Relative to the interest rate. I mean, for instance, half of one per cent differential at 3 per cent the same as I per cent differential at 6 per cent rate.

PROFESSOR BARBER: Well, I recognize this,

but I rather suspect that the effect on, say, provincial and municipal borrowers is not quite the same. The municipal and provincial borrower probably wants some margin to protect them against exchange depreciation, and then if the cost of funds in Canada exceeds that margin very significantly they will decide on going to the United States.

I think probably they think in terms of the absolute margin rather than relative margin.

COMMISSIONER BROWN: Don't you think the relative margin is probably more truly comparable?

PROFESSOR BARBER: I think it depends on what borrowers are insensitive to. If they are insensitive to 1 per cent interest rate differential it does not matter whether it is between 3 and 4 per cent or 5 and 6 per cent in terms of their decision to borrow.

I mean, there may be some other considerations, but I would think that the absolute difference was the more important one.

COMMISSIONER BROWN: My real point, of course, was that if you take comparative differences the differences are not nearly as great.

PROFESSOR BARBER: They are not as great.

COMMISSIONER BROWN: The second point I would like to comment on is that at the present time there is quite a large discussion to the effect that American interest rates are too low, that they are losing gold, their rates are too low. Would you care to comment on this, because we are interested in

comparing Canadian rates and American interest rates and American interest rates are much lower than, say, U.K. or Sweden and Finland and other countries.

PROFESSOR BARBER: Well, of course, the United States have a balance of payments problem, although if you compare its size with Canada's current account deficit on a relative basis it seems rather small. But they are concerned about this and of course if their interest rates get too low relative to interest rates in other countries, they may risk an outflow of funds which, if converted into gold, may have sort of disturbing psychological effects on the American market. This has, I know, caused a good deal of concern.

But I think that we are simply trying to take whatever rate the United States adopts as given, and sort of operate our policy with reference to that, and then perhaps if their rates move up further we may very well have to have a higher rate than we otherwise would desire.

I mean, some economists, I think, feel that too many countries have been pursuing this game now. The U.K. used the interest rate to prevent capital outflow and when the U.S. does the same, if everybody used the rate no one affects the capital outflow but interest rates are higher all the way round. Perhaps you would need a concerted agreement to get them down.

COMMISSIONER LEMAN: Professor Barber, I hate to labour this thing further, but there is something

comparing Canadian rates and American interest rates and American interest rates, are much lower than, say, U.K. or Sweden and Finland and other countries.

PROFESSOR [illegible]: Well, of course, the United States have a balance of payments problem, although if you compare the size with Canada's current account deficit on a relative basis, it's rather small. But they are concerned about [illegible] that [illegible] if their interest rates get [illegible] relative to interest rates in other countries, they may [illegible] an outflow of funds which, if [illegible], may have sort of disturbing [illegible] on the American market. This [illegible], I [illegible], a good deal of concern.

But I think [illegible] are [illegible] the whole [illegible] United States [illegible] and [illegible] operate [illegible] relations to [illegible] [illegible] [illegible] may very well have [illegible] would [illegible].

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about the comments on the conversion loan that still are not quite clear to me as to your exact contention. Are you truly contending that the pure and simple effect of extending the average Canadian debt by two and a half years produces this step-up in interest rates or is it, in the circumstances in which it was done, with a lot of side effects, connected with the operation that did produce that result? The Bank of Canada did get involved in the operation, and there were certain side effects connected with it that may have had their influence. Would you argue that it is the simple effect of extending the debt to an average of two and a half years that does it.

PROFESSOR BARBER: I am not quite sure why you say two and a half years?

COMMISSIONER LEMAN: I thought it was two and a half years average, was it not?

MR. HAMPSON: From then to now.

PROFESSOR BARBER: I see, from then until now, because that was the time it extended it from 8 years on June 30th, 1958 to 14 and 9 months on September 30th, 1958. This was the average maturity of the federal debt in the hands of the Canadian public.

Now, I suppose there are two stages. What I suppose I am saying is that the evidence showing money supply and interest rates is consistent with this hypothesis that the conversion loan was a major factor in raising interest rates. I do not think I know enough about the details of that operation to know how they may have contributed to this.

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COMMISSIONER LEMAN: In other words, do you think that if the same lengthening of the federal debt in steps over three years, say, if the government had taken more time to accomplish the same thing instead of doing it suddemly in the summer of 1958, do you think that would have had the same effect?

PROFESSOR BARBER: I do not think that we really have enough evidence to answer that question. I would not have expected in advance that this conversion loan would have produced such a substantial effect on interest rates. I can see some logical reasons now why it might have been expected to in terms of people's attitudes towards their portfolios, they regard long-term bonds as less liquid and if they regarded fairly short-term securities as something that could be readily sold to meet requirements for cash if they have now exchanged them for long-term bonds they might wait and hold them for cash. So you could say this increased the demand for cash and may have been expected to have had an effect on interest rates but there is no way until you have had some experiences of this kind of thing -- observe sliding ranges of the debt in different countries in different circumstances to know whether there were other considerations or how important they are.

I think as between comparing the range of debt just before the loan and the range of the debt at the critical time it gradually got shorter. I think the fact that interest rates have got to a higher level

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seems to develop a higher inertia simply because of the attitude of investment companies starting to quote higher rates and for one reason or another it may have made it difficult to get the rates down again. Preferences shift. People's expectations about the normal rate might shift.

COMMISSIONER LEMAN: But also in the theory, though, would you agree that it would be important to try to find out whether it was the way it was done and all this mix-up of side-effects that did occur later than the simple phenomenon of lengthening the debt.

PROFESSOR BARBER: I think it would be very desirable if we could find this out.

COMMISSIONER BROWN.: Of course there was the direct increase in the rate of interest after the conversion loan anyway and people were offered a higher rate of return.

PROFESSOR BARBER: These were higher rates than the coupon rate in the bonds they were exchanging.

COMMISSIONER BROWN: Yes, so that by itself there would be an increase in interest rates.

PROFESSOR BARBER: But there was a very substantial further increase next year, was therenot?

COMMISSIONER BROWN: Well, two years, I guess, the fall of 1959.

COMMISSIONER LEMAN: Professor Barber, there is another question I would like to ask you. On page 14 at the end of paragraph 23 you suggest

there a method of helping to control this movement of funds and you say:

> "There might also be merit in a substantial increase in the level of the withholding tax on interest and dividends paid to non-residents. If this rate were raised to 20 per cent or more ..."

Is this the weapon you are thinking of as the fixed feature of our system or would you rather look at it as something that might fluctuate up and down and how flexible is this tool?

PROFESSOR BARBER: Well, I think the problem is to achieve an effective control over the capital flows across the border and not allow them to come in in volumes which are too much for your requirements more than you can absorb and hence impose unemployment on the system. It mav be that with a more effective interest rate policy you might be able to achieve enough control and you would not need anything further.

I think in another article I presented to the Political Science Association I suggested perhaps there might be merit in varying this rate. I don't know, but the pattern of this might vary, say, from 10 per cent to 20 per cent depending on the circumstances but I am suggesting that if the volume of capital inflows seemed to be too insensitive to the interest rate we may have to look in the other direction and it has been suggested that if the investment takes the form of American companies buying up Canadian companies that might not be the proper weapon. If this becomes too

large in volume you may have to look to other possible weapons of control. It is not a case of control of foreign investment in Canada as such but if it achieves some sort of control which will make it at least workable in the requirements of our Canadian economy.

COMMISSIONER LEMAN: Do you think it would get more messy if this thing bobbed around regularly?

PROFESSOR BARBER: Yes, I think there is logic in that. If we just had some agreement with the American government where it could not be offset completely or would just be a controlling factor on foreign investment it might bring with it a somewhat greater measure of control.

COMMISSIONER LEMAN: It is quite a weapon. Even the existing 15 per cent withholding tax knocks out of the market 90 per cent of the tax of the pension funds in the United States who were large investors in Canadian debt securities.

COMMISSIONER MACKINTOSH: The other side of that is that it does not knock out tax paying corporations.

COMMISSIONER LEMAN: That is right.

PROFESSOR BARBER: And if there is shiftability in the capital market it may be less effective than you would expect at first.

COMMISSIONER MACKINTOSH: I would like to interject another question. Going back to this conversion loan in the first place there was a shift in the attitude to long-term investment bonds which

differed in extent but were similar in Canada and the United States and the United Kingdom.

PROFESSOR BARBER: Yes.

COMMISSIONER MACKINTOSH: In the past four or five years, even though we were the only ones that had a conversion. In the second place if there was any logic in the conversion loan at all it obviously was a preparation for a higher period of interest rates because the terms of the loan itself made a jump in interest rates. Now, if you assume that beyond that it had some deliterious effect on the market I think you have to assume (1) that there was too much pressure exerted and too much bank cash created, had to be created for the purpose of selling the loan and that prepared the way for a reversal. People in some cases reluctantly bought bonds and looked comparatively soon for a way to get rid of them. Or you can assume -- and this is, I confess, something I do not understand -- you could assume, and some people asserted, that the loan was badly handled in its mechanics of the practical operation or you can assume that, say, the United States stand with relation to interest rates changed while the loan was going over or shortly afterwards. I think you would have to assume one of these three things to account for the relatively bad show that the conversion loan made. I would think the evidence seemed to show that it was a larger multiple than could be managed by the market and that the expansion needed even to float it temporarily had in some measure to be reversed.

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But I do not think that this fact in respect of long-term markets of investment can just be pinned on the Canadian conversion because the Radcliffe Committee, I believe, reported at the same time and said that investors changed in respect of long-term government markets. I am afraid I am just trying to straighten out my own mind on this.

PROFESSOR BARBER: Well, I think that two factors were present. I think there were certain changes in attitude to bonds which took place early because of fear of inflation in the period of the conversion loan just about the same time and it may be that this took place at a time when the market preferences were shifting somewhat towards shorter-term securities, apparently a reflection of the greater fluctuations which were coming into government bonds and the desire to protect yourself against risk so that at the very time you were trying to put a lot of long-term bonds into the market the market would have preferred to hold more short-term bonds. This, I think perhaps, was a complicating factor and just the fluctuation that developed in interest rates may have also been caused by a desire to hold more cash or very short-term security and all of these were tied up. I suspect inevitably that if somehow the conversion loan had on the face of it never been conceived we might never have got into any kind of interest differentials, they would not have widened the way they did and provided this incentive for capital inflow.

COMMISSIONER BROWN: But in view of the

But I do not think that this fact in respect of long-term markets of investment can just be put on the Canadian conversion because the Radcliffe Committee I believe, reported at the same time and with it investors changed in respect of long-term government markets. I am afraid I am just trying to straighten out my own mind on this.

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fact that our short-term ones were so large in the following months it would indicate that there was a preference not for cash at all or short-term investments but something other than government bonds; in other words, it would indicate it was not just because of the length of the term but the investors' preference for something other than even short-term governments?

PROFESSOR BARBER: Yes, but any preference, I suppose, is always relative to the price of the security in the market and if you take away most of the short-term securities at a time when there is apreference there will be a greater benefit in what is left and alternatively people may try to hold more cash or attempt to hold more cash which forces up interest rates and the attempt must affect the interest rates.

COMMISSIONER BROWN: But by the first two or three months after the conversion we find short-terms were up over 6 per cent.

PROFESSOR BARBER: Well, of course, the ratio of the money to the gross national product was lower than it had ever been for a long, long time. In other words, money was relatively very tight both in Canada and the United States -- much tighter than it had been at any time in the past in the post-war period.

COMMISSIONER BROWN: We are back to this point that if your thesis is correct the lengthening of the available bond issue had caused an increase but did it not have a reverse effect on the short-term market? It would have increased the demand for short-

[illegible] that [illegible] short-term [illegible] were so large in the following months it would indicate that there was a preference not for cash at all or short-term investments but something other than government bonds; in other words, it would indicate it was not just because of the length of the term but the investors' preference for something other than even short-term government [illegible]

[illegible]

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COMMISSIONER [illegible]: [illegible]

[illegible] months after the [illegible] we [illegible] rates were up [illegible]

PROFESSOR [illegible]: [illegible] of course, the ratio of the money to the [illegible] lower than it had [illegible]

In other words, money was [illegible] very tight and [illegible] the interest rate [illegible] in the [illegible] of the [illegible] period.

COMMISSIONER [illegible]: [illegible] this point that if you [illegible] the long [illegible] of the [illegible] bond [illegible] but is it not [illegible] the short [illegible]

term bonds.

PROFESSOR BARBER: Well, I am not very sure; in other words, I have forgotten really the pattern of interest change in this period. Given the same money supply it should have increased the demand but as the money supply was reduced sharply this would affect the interest rates.

There is a problem there I do not think I have an answer for. This is the movement of the short rate relative to the long rate which is fairly complicated.

COMMISSIONER BROWN: There is the same thing in reverse. It went away up and then came down.

PROFESSOR BARBER: Some of this might have been due just to the relatively much tighter monetary situation. If you make money tight enough short-term rates will go up because it is expected to be only temporary and you are willing to pay much higher rates for a very short period but not for a lona period from the demand side.

THF CHAIRMAN: If you increase the money supply then the interest rate necessarily goes down?

PROFESSOR BARBER: Well, economists all seem to assume that it will.

THE CHAIRMAN: I thought there were opinions that it did not.

PROFESSOR BARBER: You could protect yourself, Mr. Chairman, by saying other things being equal.

THE CHAIRMAN: That is the whole problem, there are so many other things.

PROFESSOR BARBER: The theory is that if you supply people with more cash then they will be tempted to invest some of it and their attempt to invest some of it will bring down interest rates.

THE CHAIRMAN: 'hat is all right in theory but sometimes they tend to hold cash.

PROFESSOR BARBER: Well, this is the "other things being equal". If there is a sufficient increase in the demand for cash at the same time you are increasing it then possibly rates may rise

COMMISSIONER MACKINTOSH: I would say two common circumstances. You may have a change in attitude should you increase money supply and it does not reduce the interest rate but it keeps the interest rate from rising as much as it would in the light of all the changed set of expectations. The other one is you may increase the money supply at the same time and the increase in investor opportunities would have produced a higher rate of interest and the two more or less cancel out each other although this is likely to go through gyrations of all sorts in the short-term rate and in the long-term rate.

PROFESSOR BARBER: It is sometimes such a short term that it can be affected by fear of inflation but as between holding bonds or holding cash in both cases you will lose through inflation. If you try to shift out of bonds into equity why should not the effect be a rise in equity prices rather than a fall

THE CHAIRMAN: That is the whole problem; there are so many other things.

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PROFESSOR BARBER: It is sometimes said [illegible] that it can be affected by fear of inflation [illegible] between holding bonds or holding cash in [illegible] you [illegible] inflation. I [illegible] try to [illegible] bonds [illegible] why should not the effect be a rise in equity?

in bond prices? There is some discussion of this in the economics literature.

COMMISSIONER MACKINTOSH: Why not both? I would think probably it would have an effect on both.

PROFESSOR BARBER: Yes.

COMMISSIONER MACKINTOSH: There are a couple of recommendations I would like a comment upon or an answer to a couple of questions. If others do not want to ask questions immediately you suggest that the government of the Bank of Canada be reduced from 7 to 5 years. What is the reason?

PROFESSOR BARBER: This, I think, was a recommendation which appeared somewhere in the statement of the Radcliffe Committee. It seems to me if a new governor came in and they found themselves with a governor with whom there was a certain lack of sympathy they would not have to wait quite so long before there was a decision whether to replace him or not. This difference between 7 and 5 years would give you a little more flexibility. The situation of accomodating changes in the government probably would not be too important.

COMMISSIONER MACKINTOSH: Do you think there is a great deal of danger in getting the term of the Governor of the Bank of Canada related to the "periodicity" of general elections? I agree the Bank of Canada must follow government policy but if the Governor's term should be set so it would be likely to coincide with any change of governments,

and I guess there is some discussion of this in the economics literature.

COMMISSIONER MACKINTOSH: Why not both? I would think probably it would have an effect on both.

PROFESSOR PARKER: Yes.

COMMISSIONER MACKINTOSH: There are a couple of recommendations I would like a comment upon or an answer to or comparative questions. The others do not refer to our questions immediately — you suggest that the government of the Bank of Canada be reduced from 7 to 5 years. What is the reason?

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COMMISSIONER MACKINTOSH: Do you ... there is a great deal of danger in getting the ... of the Governor of the Bank of Canada related to the "period" ... of general elections ... the Bank of Canada must follow government policy ... the Governor ... term ... be set so it would

it would be going pretty far in terms of an institution which needs some semblance of independence.

PROFESSOR BARBER: I think in practice it would overlap. I don't think governments change at regular intervals. The maximum can be five years. I had not any thought of the length of term of the government in choosing five years. It was just to give it the probability that in the new government's term of office it would have an opportunity of changing the Governor if they did prove to be temperamentally not getting along too well together, because I think one of the things that is evident from this whole period is that all of these policies are closely inter-related: exchange rate policies, interest rate policy, debt management policy and fiscal policy. They have to be managed with some degree of cohesion and central direction

COMMISSIONER MACKINTOSH: The other thing, which is minor, I think, is that I don't like the suggestion the executive of the Canadian Political Science Association should nominate members of the Board of the Bank of Canada. I am not quite sure how to define a professional economist, since I have probably lost my own union papers in the matter, and I have sympathy with your idea there ought to be on the Board of the Bank of Canada a number of people who through academic or business experience have an understanding of economic monetary policy. But I would be very hesitant to rely on that simple mechanism.

PROFESSOR BARBER: The suggestion was

It would be going pretty far in terms of [illegible]

which needs [illegible] of [illegible]

PROFESSOR [illegible]

It would overlap [illegible] think over a certain thing

of regular [illegible] years [illegible]

I had not [illegible] thought at the length of time [illegible]

government [illegible] five years [illegible]

the probability [illegible]

[illegible]

the Governor [illegible]

not getting along [illegible] together [illegible]

one of the things [illegible]

period is that [illegible]

[illegible]

[illegible]

[illegible]

and [illegible]

[illegible]

thing [illegible]

[illegible]

[illegible]

head of the [illegible]

[illegible]

probably [illegible]

[illegible]

the [illegible]

through [illegible]

understanding [illegible]

would be very [illegible]

that they should nominate a slate and the government should be free to choose from this or request a further slate if they didn't like any of them.

COMMISSIONER MACKINTOSH: Well, it is not a vital point at all, and I think your main point is that you would like to see people with economic and financial knowledge and experience.

PROFESSOR BARBER: Yes. There is, I think, the problem that the public sometimes has a very vague idea of what an economist is.

THE CHAIRMAN: So do some economists, of course.

COMMISSIONER BROWN: If you had two economists on the Board, what degree of assurance would you have there would be any agreement?

PROFESSOR BARBER: I think perhaps one of the problems was that there was too much agreement on the Board that was in existence in the past few years; that you needed someone to disagree quite vehemently in order to get the point thrashed out thoroughly.

COMMISSIONER BROWN: I wasn't really trying to be as facetious as I seemed. I think your main point is that there should be some trained economists either on the Board or available at very high level to make sure all the points are considered by the people who have to make a decision.

PROFESSOR BARBER: Yes.

COMMISSIONER BROWN: This can be done by having them on the staff of the Bank of Canada rather than on the body that makes the decisions.

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PROFESSOR GARBUTT: Yes, I think that is the problem that the job is sometimes [illegible] very vague idea of what an economist [illegible]

THE CHAIRMAN: [illegible] do [illegible] of course

COMMISSIONER BROWN: [illegible] economists on the board, [illegible] would you have there would be any agreement?

PROFESSOR [illegible]: [illegible] of the problem was [illegible] on the board that [illegible] in existence [illegible] that you needed someone to [illegible] in order to get [illegible]

COMMISSIONER BROWN: [illegible] trying to [illegible] point is that the [illegible] either [illegible] to make sure all the points [illegible] people [illegible] decision.

COMMISSIONER BROWN: [illegible] be done by having them [illegible] of the Bank of Canada rather than on the body [illegible]

The big point is that their point of view be considered ...

PROFESSOR BARBER: Yes, I think so.

COMMISSIONER BROWN: ... in that decision being reached, rather than that they make the decisions?

PROFESSOR BARBER: I think so. One of the problems, I suppose, of having them on the staff is that if the Governor intimidates them too much they may be able to disagree on the Board of Directors.

COMMISSIONER GIBSON: Earlier on you made a reference to the subject of hindsight: You were talking about the period 1955 and 1957, and without judging the merits of the argument that you use here, wouldn't you think it would have been reasonable to expect a central bank to be aware of the need for and actively pursue a policy of greater monetary ease? I think you will probably agree, thinking back to 1957, that there was a lot of talk about deflation in the air, and certainly the broad opinion both in this country and abroad was that interest rates would go higher. There were some doubts being expressed about the shortages in the world, and it was becoming obvious what the shortages were, but certainly it was a time when there was a lot of talk about higher interest rates and expectations were for higher interest rates when there was a growing interest in equities, and my recollection may be faulty but I would have thought this same kind of thinking came very much to the fore in 1959 again when we had quite an inventory boom. I wonder would

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it be reasonable to think in terms of a basic change to the whole approach; in other words, a change geared to lower rates, encouraging demand, rather than geared to our higher rates and restraining inflation? It seems to me you don't really deal with this point here. You have the benefit of hindsight when you read this memorandum, and I think the problem is relevant.

PROFESSOR BARBER: Yes, but I think what perhaps disturbs me about reading through the annual reports of the Bank since 1956 is that you cannot anywhere see any clear awareness of the problem developing; that there was an extraordinary large capital boom; that you could not really expect capital expenditures to continue on this scale; that it was almost inevitable this should decline, and you should then expect a decline on the current account deficit, and that you should somehow or other encourage this decline. Control of inflation is another problem, but I think if you had had your policy focussed on this control, of course, other policy measures that could have been taken to restrict inflationary courses ---

COMMISSIONER GIBSON: Of course, this is part of the conversion operation.

PROFESSOR BARBER: It is not entirely. I can remember discussing this as a problem with my students in 1956 and 1957. I said, explain how this adjustment to the inflow capital works. I am suggesting that we can expect this will continue, and the interesting problem will be, how will it work the other way; how will the economy adjust to a declining capital expenditure,

it be reasonable to think in terms of a basic change to the whole approach; in other words, a change [illegible] to lower rates, encouraging [illegible] rather than [illegible] to [illegible] higher rates and restraining inflation? It seems to me you don't really deal with this point here. To have the benefit of hindsight when you read this memorandum, and I think the problem [illegible].

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COMMISSIONER GIBSON: Of course this is part of the [illegible]

PROFESSOR BARBER: [illegible] certainly I can remember discussing this as a problem with my students in 1956 and 1957. I said, [illegible] this adjustment in the inflow capital [illegible] that we can expect this [illegible] problem will be, [illegible] will the economy adjust to [illegible]

and that more or less assumed this would be recognized and the central bank would act to try and bring this about, but it doesn't seem to have been clearly recognized.

COMMISSIONER GIBSON: But in the broade canvass would you agree that the general expectation both on this continent and in Europe at this time was toward higher interest rates?

PROFESSOR BARBER: Well, I am not sure that -- I was involved in many other things at this period, and I remember this period in the summer of 1958 and late 1958 when there was a sort of a general development of a fear of inflation, mainly because prices continued to rise for the first time during a recession. I think there were special reasons for that, but still it did develop and there was some interest in it, but I think the important point was not the rise in interest rates, but the increased spread and the incentive it gave to borrow funds in other countries. In some way it almost seems as though you have two horses pulling in different directions: The fiscal horse was determined to go ahead as fast as possible, and this upset the monetary policy horse and he checked rein to slow things down and this produced the worst possible combination.

COMMISSIONER GIBSON: There is one point going on from there: Suppose we had pursued an easier policy in the latter part of 1959 to 1960: You suggest a very nice picture of how it might have worked, and I don't disagree that would have been the direction in

and the monetary factors and this would be generally [illegible] in both world ... [illegible] about, but it doesn't seem to have been clearly recognized.

COMMISSIONER GIBSON: But in the [illegible] conversely would you agree that the general movement both on this continent and in Europe ... [illegible] was toward higher interest rates?

PROFESSOR BARBER: [illegible] I [illegible] that [illegible] was involved in many [illegible] this period, and I remember the period in the summer of 1958 and late 1959 when there was [illegible] a general development of [illegible] of inflation [illegible] money [illegible] pressure [illegible] need to [illegible] [illegible] first time [illegible] recession. I think there were special reasons [illegible] but still it did develop and there was [illegible] in it, but I think the important [illegible] was not the rise in interest rates, but the increase [illegible] the [illegible] incentive [illegible] to borrow [illegible] in some way [illegible] forces pulling in different directions [illegible] was determined [illegible] upon the [illegible] to slow things down [illegible] combination.

COMMISSIONER [illegible]: [illegible] going on from there. Suppose [illegible] policy in the latter part of 1959 [illegible] a very [illegible] picture [illegible]

which things would have gone, but suppose by lowering your interest rates here we had succeeded in reducing the inflow -- a deliberate inflow of capital -- the conscious borrowing abroad and indirect investment it was making in Canada and the conscious portfolio of investment: Do you think that would have eliminated the current account deficit?

PROFESSOR BARBER: It would not have eliminated it. It might have reduced it sufficiently that the economy would have been in a much better situation.

COMMISSIONER GIBSON: Yes.

PROFESSOR BARBER: Even if it reduced by half it would have a very significant favourable effect on the Canadian economy.

COMMISSIONER GIBSON: But it doesn't follow it would have gone on. There may have been factors creating a deficit which would have created voluntary debt.

PROFESSOR BARBER: I think my major complaint was that policy didn't seem to be focussed on this problem at all, and if it had been, then presumably if the interest rate policy was not sufficient, they could have thought of alternate policy measures.

COMMISSIONER GIBSON: Looking at the domestic side of it, suppose we had a much smaller deficit: Does it follow that we would have had a substantially smaller government deficit? Your suggestion is that it does ---

PROFESSOR BARBER: Well, given the tax

[illegible] rates would have gone, but especially in the [illegible]

out, interest rates here we had succeeded in reducing

the inflow -- a deliberate inflow of capital [illegible] the

[illegible] our borrowing abroad and direct investment,

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PROFESSOR BARBER: It would, I think,

eliminated it [illegible] might [illegible] exceeded it substantially

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[illegible]

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[illegible] economy deep.

PROFESSOR BARBER: [illegible]

[illegible] don't [illegible]

[illegible] this problem [illegible]

government [illegible] the [illegible] policy was [illegible]

the [illegible] policy was [illegible]

COMMISSIONER GIBSON: [illegible] the

domestic side [illegible] we [illegible]

[illegible] follow [illegible] we [illegible]

[illegible] mainly [illegible] government deficits [illegible]

rates and expenditure policies there would have been. In other words, I think, if anything, if monetary policy had eased the employment problem the government might have felt under less pressure to take other measures.

COMMISSIONER MACKINTOSH: You are assuming the lower rate of interest would increase the Gross National Product?

PROFESSOR BARBER: Yes, lower rates plus whatever policies were necessary to get the current account deficit down. It would have meant lower imports and higher exports.

COMMISSIONER MACKINTOSH: Yes, but there is no arithmetic ---

PROFESSOR BARBER: I agree, as to the amount.

COMMISSIONER MACKINTOSH: It might have had a very little effect or a very great effect.

COMMISSIONER GIBSON: And it was still a period in which you had a decline or much less active world markets for your basic products and, as you were emphasizing, a cutback in the investment programme, and therefore there was a good deal of unemployment and this would have tended to produce policies leading towards deficits.

PROFESSOR BARBER: Still it is hard to understand why the Canadian economy should have slowed down so much when the European economy was pretty buoyant and the American economy slowed down even less than the Canadian economy.

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PROFESSOR BARBER: Still it is hard to understand why the Canadian economy shouldn't have

COMMISSIONER MACKINTOSH: Isn't it a fact that around 1956 there was a marked shift in the terms of trade between countries exporting chiefly highly manufactured goods and countries exporting raw materials and slightly processed goods, and that this extended the boom in Europe and hastened it in countries like Canada?

PROFESSOR BARBER: I am afraid I don't remember those figures. As I recall, Canada's particular terms of trade did not deteriorate substantially after that period.

COMMISSIONER MACKINTOSH: I don't recall the Canadian figure, but the British figure, if you take it as the converse, definitely does.

COMMISSIONER BROWN: At the moment the Federal Government is employing a policy of going into the short-term market and avoiding the long-term market; so far they have been as far as any borrowings are concerned, and this has been resulting in an accelerating shortening of the term of the debt: Do you anticipate this will lead to lower interest rates?

PROFESSOR BARBER: I would think it should on longer terms but, as I said before, there does seem to develop sometimes a certain rigidity in the interest rate structure, and I would not be too confident, having got up there, and people having got used to these higher rates, that they will come down as readily as one might hope.

COMMISSIONER BROWN: Earlier there was

a fact that around 1956 there was a marked shift in the terms of trade between countries exporting chiefly highly manufactured goods and countries exporting raw materials and slightly processed goods, and that this extended the boom in Europe and hastened it in

PROFESSOR BARBER: I am afraid I don't remember those figures. As I recall, particular terms of trade did not deteriorate substantially after that period.

COMMISSIONER MACKINTOSH: I don't recall the Canadian figure, but the British figure, if you take it as the converse, definitely does.

COMMISSIONER BROWN: At the moment the Federal Government is employing a policy of going into the short-term market and avoiding the longer-term market, so far they have been as far as any borrowings are concerned, and this has been resulting in an accelerating reduction of the term of the debt. Do you anticipate this will tend to lower interest rates?

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some discussion about the rates on Canada Savings Bonds and it was approached from the point of view that the rates had to be this high in order to encourage people to buy Canada Savings Bonds. There is always the question of the chicken and the egg, and it is possible that perhaps the higher rates offered on the Canada Savings Bonds have developed a pattern and people expect these higher interest rates on ready money and therefore are looking for still higher rates on longer term bonds?

PROFESSOR BARBER: I think all I can say is, expectations are undoubtedly very important, and this is possible. I think the government could always test this by trying to lower the interest rates on Canada Savings Bonds. It may be in view of the uncertainty in the market that tastes have shifted away a little from fixed term bonds and towards the Canadian savings type bonds, because two provinces now have moved into this field with a considerable measure of success.

COMMISSIONER BROWN: Three, I think.

PROFESSOR BARBER: Three?

THE CHAIRMAN: Thank you very much, Professor Barber. We will adjourn until 9.15 tomorrow morning when Premier Roblin will be present and also the Credit Union of Manitoba.

--- Adjournment.

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PROFESSOR BARBER: I think of [illegible] is, expectations are undoubtedly very important and this is possible. I think the government could always [illegible] this by trying to lower the interest rates on Canada Savings Bonds. It may be in view of the uncertainty [illegible] the market that rates have drifted away [illegible] from fixed term bonds [illegible] towards the Canadian savings [illegible] bonds, because two or three years I have moved into this field with a considerable [illegible]

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--- Adjournment

Royal Commission on Banking and Finance

Hearings held at Winnipeg

Vol. 8A

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MANITOBA SUBMISSION TO THE ROYAL COMMISSION ON BANKING AND FINANCE

E R R A T A

PAGE

- Paragraph 10:- A455

This paragraph should be deleted in its entirety. The chapter ends at the conclusion of paragraph 9.

- Paragraph 6 - Lines 3 and 4:- A459

The clause, "but they have the right to establish their own discount rates elect members to the Board of Governors of the system." should read:

"but they have the right to establish their own discount rates subject to th review of the Governors of the system."

- Paragraph 13 - Line 5:- A460

The phrase, "open market dealings are" should read:

"open market dealings in new Federal Government issues are"

- Paragraph 13 - Line 7:- A463

The phrase, "three equal parts" should read:

"three parts"

- Paragraph 20 - Line 1:- A464

The phrase, "there is now reasonably adequate credit" should read:

"there is now reasonably adequate operating credit"

- Paragraph 21 - Line 2:-

The phrase, "present credit supplies" should read:

"present operating credit supplies"

- Paragraph 5:- A465

The paragraph should be deleted in its entirety and the following should be substituted:

"5. More practicable, perhaps, would be a greater degree of co-operative action originating with the lending institutions themselves whereb excess commitment in particularly active areas could be altered to favour areas wherein more activity could usefully be stimulated. Such an increas in the co-operative aspects of their investment approach would probably ca for some changes in administrative and other arrangements on the part of t participating institutions. The difficulties that might be encountered in devising these co-operative arrangements might well seem less in magnitude than the economic difficulties associated with the devil-take-the-hindmost philosophy of the present approach."

- Paragraph 8 - Line 10:- A466

All words following the word, "ventures." should be deleted in their entire and the paragraph should thus end at the word, "ventures."

- Paragraph 15 - Line 2:-

The phrase, "the later Mr. James Muir" should read:

"the late Mr. James Muir"

READING SUMMARY AND OUTLINE
OF SUBMISSION BY THE GOVERNMENT OF MANITOBA
TO THE ROYAL COMMISSION ON BANKING AND FINANCE

It is a privilege to participate, on behalf of the Province of Manitoba, in this essential major review of the banking and financial system in Canada. We appreciate the opportunity afforded by this Commission to put forward the viewpoint of the Provincial Government on matters of substantial importance to the continued progress and prosperity of our people.

It is a viewpoint of particular regional concern that we will place before the Commission. We have considered that our most useful contribution to the task of review would be in focussing attention on those areas and problems falling within the direct responsibility and orbit of our Provincial authority. Our comments will, therefore, follow a theme which we believe to be consistent throughout our presentation -- the necessity of regional development and the problems involved, particularly in respect of financial means to that end.

We shall avoid specific or general theorizing insofar as possible. Rather, we will describe situations and problems as we see them in our region, and we shall venture suggestions as to possible solutions.

In the main, we judge these hearings to be primarily concerned with enquiry as to the suitability and capacities of our existing banking and financial institutions to meet the tasks assigned to them by the economic and related circumstances found in Canada today. We are concerned as to whether these capacities and capabilities are adequate to the present and future requirements placed upon them. Past judgments

are set to one side by progress, unless they remain appropriate in new conditions. We shall have to see whether our banking and financial system has remained adequate in concept and practice in a world drastically altered from the one in which the system was originally conceived.

While specific concern for taxation and fiscal policies may not be immediately within the orbit of this Commission, we have found unavoidable references to aspects of our problems -- and the possible solutions -- which touch on these areas. Without a review of tax structures and concepts, financial policy may be altered only at the risk of failure in purpose and effect.

Specifically, we must be concerned as to the degree that the continuing unevenness in regional development of economic strength and resources can be traced to possible inadequacies in the goals, practices, organization and concepts of the banking and financial apparatus. We believe that a sufficiently reasoned case can be made for the need for new organization to attack the special problems of regional development. We believe that over-emphasis in the past on security for investment capital has tended to place too high a value on the status quo and too little on progress.

We would not forego stability in search of something merely new. In fact, what we feel is required of the banking and financial system in Canada is extension rather than replacement. We would emphasize the need for new focus and new technique in meeting our regional needs. These aims must be achieved by establishing a greater flexibility for the existing financial facilities.

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we feel is required of the banking and financial system in Canada is extension rather than replacement. We would emphasize the need for new tools and new techniques in meeting our regional needs. These aims must be achieved by establishing a greater flexibility for the existing financial facilities.

We would recommend that the Commission give special emphasis to an analysis of the availability, adequacy, and reasonableness of terms for the use of risk capital for northern investment. Financial institutions, we suggest, must be encouraged to accept a greater share of responsibility in the organization of developmental capital for northern Canada.

It may well be that special funds and institutions must be provided to meet the particular challenge of northern development. Unless we make such means as are necessary available within Canada, we cannot reasonably object to continuing development by outside capital of areas we are not willing to accept within our own responsibility.

In the same vein, the difficulties of under-developed or "problem" areas -- and we in Manitoba have several such areas -- require specialized attacks. Special incentives to development in such locales may be required. These would be worthy of consideration in respect of investment in areas such as the Interlake region or South-eastern Manitoba, for example.

The nature of the problems afflicting the economies of the marginal areas is such that only relatively labour-intensive secondary manufacturing or service industries will meet the requirements. The acceleration of such secondary industrial development is an acute need.

We must recognize that those regional economies still largely in development -- or in transition from basic primary dependency on agriculture as for Manitoba -- will depend upon small business activity to a major degree. This will hold for a fairly long

period. Small business requires special scales of service, special techniques of assistance and special emphasis in approach. The private sector of investment organization may well have to develop the requisite special means to meet the needs of small enterprise.

Public authorities may prime the mechanism for investment in regional economies, but the response of the private sector to regional requirements will determine the ultimate success and progress of development. Possibly, we shall have to encourage more co-operative application in the provision of public and private capital and in the organizational effort needed to achieve regional objectives.

The Commission may wish to enquire into the investment pattern developing in large business enterprise whereby increasing shares of profits are held as undistributed earnings. When these are re-invested, without particular concern for wider needs, it may be that uneconomic capacity is created in one area while another is left without capital for economically productive investment.

In this context, as in numerous other areas of our concern, we find the need to question the existing elements of taxation and fiscal policy. We seriously doubt that any new approach to organization and distribution of necessary capital will achieve the full effect desired without some prior concern for the fiscal framework in which it will operate.

We have stressed our concern that the regions receive the emphasis of future development. We deplore a tendency toward "branch office" climate and attitude.

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We have stressed our concern that the regions receive the emphasis of future development. We deplore a tendency toward "branch office" climate and attitudes.

This can be as bad for Western Canada or for the Atlantic Provinces as absentee ownership through foreign holdings of our capital equities is for Canada as a whole.

There must be a study of the financial choices open to small business in our regions requiring development. Would capital financing or equity investment be best for their special situations?

We suggest that much of the investment problem in respect of local development within the regions of Canada is more that of distribution than availability of capital. The available funds may be inaccessible because no appropriate means have been applied to distribute them where the need exists.

Where small business operates remotely from the centres of financial activity, real social and economic problems are created by lack of developmental support.

The institutionalized funds and savings are not normally available to new business. Many institutions go well beyond the legal extent of caution in this regard.

In many instances, the barriers to improvement in local facilities may be more psychological than actual. There is a general tendency among existing private sector institutions such as the banks and investment concerns to refrain from a regional focus. They cannot see opportunity because they do not seek it in the regional sector.

Much of this problem of focus can in turn be traced to a lack of data. Insufficient statistical and related information is provided by existing facilities that could inform or attract investors in respect to local opportunities. Data on the inter-regional flow of savings and with regard to regional investment patterns and commitments are particularly required.

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There must be a study of the financial choices open to small business in our regions requiring development. Would capital financing or equity investment be best for their special situation?

We suggest that much of the investment problem in respect of small developers within the regions of Canada is more that of distribution than availability of credit. The available funds may be inaccessible because no appropriate means have been applied to distribute them where the need exists.

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While the banks appear to be meeting the short term needs of the regional economies, the chartered banks' branch banking policy does not favour regional development over the long term. This is particularly true in the special transitional circumstances of much of the Prairie economy -- as in Manitoba.

The banks have been slow to adjust. Blanket credit policies seem convenient and even plausible. Yet such centralized policies can and do hamper local or regional growth.

The Commission may wish to enquire as to the effectiveness of fixed capital loans by banks under Federal legislation such as the Small Business Loans Act, the Export Credits Insurance Act, the National Housing Act and related provisions.

More regional banking information is needed. We have no data to guide us in judging the real effectiveness of the system in our own jurisdictions.

We have a particular concern for the municipalities and their problems. In the capital market, small local authorities need assistance. A more permanent and extensive consortium arrangement between banks and institutions could serve most usefully in providing such aid and support for municipal capital needs.

In the overall decisions of the banking authorities, including the central bank and its agencies, we would like to see a more effective regional influence than is evident at present. Appointments from regional communities may be only a beginning in bringing to the policy makers a concern for localized development needs.

Regional variations in monetary policy are difficult to conceive and we frankly confess an inability to suggest a practical possibility here. But further examination

needs of the region.

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of this area seems necessary. It may be that the creation of policy may be conditioned by greater awareness of regional circumstances.

We believe that the Bank of Canada should relinquish its role of fiscal agent because this activity effectively bars a concern for regional requirements at the central bank. We would prefer to see such responsibilities concentrated in the Department of Finance, leaving the Bank of Canada free to exercise its own independent judgments in this area.

There are a number of further specific improvements that we would suggest for the Industrial Development Bank. In particular, we suggest more emphasis on development and less concern for the monetary role of the parent central bank. In fact, separation of the agencies might be warranted.

Certainly we advocate more regional identity for the Industrial Development Bank branches, and more direct involvement in regional development. New terms of reference for the Industrial Development Bank might be suggested by the Commission. We have in mind the possibility of more co-operative activity jointly carried out by the Industrial Development Bank and Provincial Agencies. A greater effort is needed to close the gap between suppliers of capital and the seekers of investment support.

As in other contexts, information in a commodity in short supply with reference to Industrial Development Bank research activities. We recommend that the findings of this agency's regional studies be made more generally available for local use.

If the Industrial Development Bank were to entertain a role of co-operative lender, research data would be an invaluable and prerequisite aid to sound investment.

Co-operative research would be logical in such circumstances.

We would venture that the already highly useful role of the Industrial Development Bank could be greatly enhanced if the agency were to be converted to a national federation of regional agencies with federal sponsorship.

Other special public and private organizations ought to be encouraged to take a direct regional role in development and in the provision of capital for such development. There is a particular need for some special assistance to medium range industry in regional economies in order that growth may be sustained beyond the first successful expansion from the original investment stage. A "follow-through" programme of support is necessary when firms are just at the stage when outside capital will mean progress and the lack of it stagnation.

All of these regional aims will be served in major part by local resources if means can be found to increase the reasonable conversion of "savings into equity". Excessive emphasis on "safety" for savings can tend to increase the actual risk to the potential value of the savings.

There are special conditions within particular regions that ought to attract the interest of investors, and which may require special support in this endeavour. For example, trained agriculturalists would be well-employed in banks in our area. More direct liaison with the Federal and Provincial Departments of Agriculture would also insure the banks better application of credit now given. Borrowers need advice as well as funds, but the advice must be reliable.

There exists an immediate need for livestock financing, for example, that

requires special approach. Yet, livestock production is now one of the brightest prospects for farm progress.

The present federal agencies and programmes do not go far enough in supplying, independently of established institutions, the necessary financial support for local development. The supply of small business capital tends to remain a sort of "insured charity" activity of major financial institutions under the present federal legislation.

No one credit policy will suit all needs or all regions simultaneously. The answer may be in added flexibility for the credit system, although this may be difficult to manage within a national monetary framework.

Variation in interest rates by regions is difficult in our present system and the idea has not been greeted with much enthusiasm in the past. However, it can be done in the United States, apparently. Perhaps the Federal Reserve System there warrants a closer look for possible adaptation to Canadian needs.

Co-operation among regional lending institutions is another alternative. In the same vein, it could be suggested that an apportionment, co-operatively, of regional institutional investment pools for "local" development would be practical and effective.

Taxation must be reviewed, as well, in the light of overall federal dominance in the fiscal field. But we do not exempt Provincial and municipal tax structures from such necessary analysis.

We have suggested previously the potential advantages of tax-free status for bonds issued in support of the development of social capital at the municipal and provincial level. More consideration is warranted for this suggestion than we have

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We have suggested previously the potential advantages of tax-free status for bonds issued in support of the development of social capital at the municipal and provincial level. More consideration is warranted for this suggestion than we have

noted. Support for such a technique of social capital encouragement has come from the banking sector itself.

A general enhancement of the municipal securities market seems imperative if we are to maintain even growth within the Provincial regions themselves.

The "dividend credit" device might be applied, as well, in this social capital area, thereby encouraging investment in municipal and provincial bonds issued for such investment.

Regional tax-differentials provided by the Federal Government would also enhance specific local development, if it were possible and practical to work these out within a revised tax structure.

The recurring need for regionally focussed information and specific data seems to apply in every field of suggested improvement. It may well be that this is the prerequisite for solution to regional development problems.

A national pooling of information facilities for regional use would be a step in the right direction. We suggest more emphasis on actual business development and less on public relations within the regional sphere. The accessibility of existing federal and centralized information should be increased. Far too few of the specialized interpretive data reports are available to regional agencies. More explanation of such data is also required when they are made available.

We have suggested the value of establishing a National Economic Advisory Council. We feel that such a group of regionally appointed experts could make a valuable contribution as "middle-men" in transmitting available knowledge and advice --

without compulsion -- to regional authorities in respect of economic problems confronting Provincial and municipal government bodies.

There are other comments and other areas of interest which could be explored. Our main submission details some of those which we have discussed here. However, in the main, we are satisfied to remain within the bounds of our jurisdictional responsibilities. We are immediately involved in the Provincial and municipal aspects of development. We have directed our attention here.

Yet we must confirm our conviction that regional progress will determine the national development. Our wider interest in the efficiency and effectiveness of the Canadian banking and financial system stems from this conviction. We are most appreciative of this Commission's concern that these facilities shall better serve the various interests of all Canadians.

SUBMISSION TO THE ROYAL COMMISSION ON BANKING AND FINANCE BY PREMIER DUFF ROBLIN ON BEHALF OF THE GOVERNMENT OF THE PROVINCE OF MANITOBA

INTRODUCTION: -

1. It is nearly 30 years since the last authoritative review in Canada of the banking and financial system. Since the MacMillan Report, the changes in our economic and social structure have been far-reaching. Whatever may have been done in the past can now have value only if appropriate to the conditions with which we must now contend. In practical terms, we are in a new world in which we have so far been able to adjust the rules and precepts of the past only in a piece-meal way. We have yet to restate our basic problems or the principles to be applied in dealing with them.

2. Canada has had many good years since the end of the Second World War in respect of her over-all economy. But events have made increasingly clear a need for positive and imaginative measures in all fields of economic organization. Such measures are essential if we are to continue to hold our place in an increasingly competitive world. Banking and finance necessarily have a prime place in the over-all approach to problems of economic challenge. Furthermore, while the Government of Manitoba appreciates the fact that specific concern for taxation matters as such may not be included directly within the terms of reference for this Commission, it considers that reference to the related aspects of taxation is essential to any valid consideration of financial problems.

3. We do not intend to attempt a broad or theoretical approach to the matters now before this Commission. These aspects will have your attention at another time. Rather, we believe that we may better contribute to the effectiveness of this enquiry if we deal with those aspects of the over-all financial and banking problems which are of primary concern to the economy of this Province.

4. Canada's growth in the post-war period, taken as a whole, has been gratifying but it has also been uneven. One need only to look at the varying levels of personal income in the different areas or to the regional distribution of corporation profits to appreciate the extent and strength of centralizing economic forces which have left us still with a regionally unbalanced economy. There have been some exceptions to this -- the recent rapid development of Alberta and British Columbia, for example, although this was based on the fortuitous circumstances of natural resources. Relatively speaking, however, the less developed areas of thirty years ago are still the less developed areas today and the accumulated wealth of the land is still largely concentrated in the central regions although, even there, the distribution is uneven.

5. We recognize that such conditions are inevitable and that it will take a conscious act of public policy to change the line of this development. We consider that such effort is essential to Canada's sustained growth as a nation. No country can continue to exist indefinitely as an economic and political entity where the need for a broad national standard of balanced growth is not recognized. It may be that our objective may not be possible of full accomplishment, but unless we now make every possible effort toward this aim, we will seriously jeopardize our economic and political development and our ability to assume our proper place in the world.

6. We conceive that the Royal Commission on Banking and Finance has as its main task the assessment of what facilities and services we now have and their suitability to our present circumstances, and the alternatives which can lead to the attainment in future of our legitimate objectives. It is no longer possible to treat matters pertaining to finance in isolation. Full resources -- financial and economic -- must be mobilized to the task of providing adequate support for our development. While the existing system has served reasonably well in the past, it is obvious that many changes in both principles and practices are required if we are to achieve our objectives.

7. Manitoba's own position, while differing in important respects from other parts of Canada, will not be unique. This Province is in a period of transition. Its economy is developing from one based principally upon agriculture and railway transportation

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THE PROVINCE OF MANITOBA

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5. We recognize that the conditions are inevitable and that it will take a concerted use of public policy to correct the line of this development. We are convinced that such action is essential to a more balanced growth as a nation. The country can continue to exist indefinitely as an economic and political unit where the need for a broad national standard of income and growth is not recognized. It may be that our objective may not be capable of full accomplishment, but unless we now take every possible action towards this aim, we will not really [illegible] our country and [illegible] development of our ability to assume our proper place in the world.

6. We contend that the Royal Commission on Banking and Finance has as its main task the assessment of what facilities and services we now have and their suitability for our national requirements, and the alternatives which are to meet the needs of the future and to achieve objectives. It is no longer possible to treat questions [illegible] of finance in isolation. Full employment -- financial and economic -- must be the aim [illegible] the task of providing of quite support for our development. While the existing system has served reasonably well in the past, it is obvious that many changes in basic principles and practices are required if we are to achieve our objectives.

7. Manitoba's own position, while differing in important respects from other parts of Canada, will not be unique. This Province is in a period of transition. Its economy is developing from one based primarily upon agriculture and [illegible] to a [illegible]

to one more complex. A growing secondary manufacturing and natural resource development is being added to and integrated with the changing basic structure of the past. We are urgently concerned that the banking and financial system be capable of meeting these new demands and we believe that we must recognize the necessity that the system be constructed and maintained in a form suitable to the continuing balanced national growth of this country. This implies a banking and financial system made fully effective at the regional level. This submission is based upon that view.

CHAPTER I - FINANCIAL REQUIREMENTS OF REGIONAL DEVELOPMENT IN MANITOBA

1. It is possible in general terms to measure the requirements of the economy for financial services, cash and credit, by the aggregate of annual transactions. The best attempt at this measurement lies in the concept of the national accounts -- that is in the gross national product. In view of the lack of regional data, we have found it necessary to apply some generally similar measurement to the provincial economy. We have arrived at what is at least a temporary hypothesis of the provincial product. We regard it as a useful guide but we do not vouch for its statistical legitimacy.

2. To distinguish this approximation from the complex accounting of the gross national product, we have called Manitoba's economic aggregate the annual gross provincial income. In method, it reflects a general relationship established between aggregate Canadian personal income and the gross national product, applied to the personal income of the Province. On this basis, Manitoba's gross provincial income for 1961 approximated $1,845 million.

3. The provincial economy's aggregate activity is thus shown to be approaching $2,000 million annually. This may be said to represent, in a rough way, the aggregate of short run requirements, public and private, and gives us some idea of the magnitude of requirements in our financial system. This is an over-simplification, but it serves, we think, to give us some basis of measurement.

4. An examination of the budgets of public authorities in recent years indicates an increasing importance for their contribution to the national and provincial products. This public activity (without reference to Federal commitments) is estimated to have been 16 percent of gross provincial income last year. However, in the context of our present consideration, it has been found that the public sector, in the short term, does not place a very heavy demand on the banking and related financial system and the situation is not unsatisfactory. Our municipal organizations, for example, do not as a rule run substantial credit lines, except for short periods. The short run demands of the Province have been adequately served through bank credits and other short term means. It is unlikely that any noticeable relative increase will be experienced here. The same generally is true of those public bodies and institutions which must be provided with financing in the short term.

5. In summary, the main financing problems of the public sector appear to be in the long rather than the short term and it is here that the private sector -- business, industry and farm -- can be inferred as exerting the main pressure upon the financial apparatus of the whole provincial economy. The private sector's call upon the banking and financial system remains dominant on a day to day basis and there is every indication that the rate of demand is growing. Among the pressures are the increasing needs of the retail trade, which now aggregates over $800 million annually. Wholesalers, manufacturers and distributors, commercial and professional services all form a part of the aggregate private demand upon the financial system.

6. In 1961, the provincial agriculture, in spite of drought, had a gross value of production of $260 million, or 17 percent of the gross value of material out-put of goods and service. The natural resource industries of forest, fisheries and mines accounted for another $130 million or 8 percent. Manufacturing -- at $770 million in annual shipments in 1961 -- provided a 49 percent share of the gross value of production. Construction totalled $400 million or 26 percent.

7. These data, fragmentary though they must be in this context, offer another measurement of the short term needs for banking and financial service in the Province. Crops and inventories must be financed. Equipment purchases, renovations and repairs must all be supported at one time or another and in greater or lesser degree by credit. Building and maintaining plant requires the effective economic backing of the financial system.

8. In Manitoba, where there is greater emphasis on the small enterprise and where large industrial complexes are relatively few in number, the short-term financing responsibility falls, with special emphasis, on the banks and related sources of

credit. Small business cannot rely on its own resources. The effective demand for financial services will continue to grow at a substantial rate. To the extent that bank clearings are indicative, it is of value to note that from 1956 to 1961 the value of cheques cashed rose by 50 percent.

9. The demands of the long term also concern both the public and the private sectors, but here the public sector assumes a greater prominence. The primary tasks of stimulating and building a national economy have in recent years fallen with increasing weight upon the provinces and their municipalities. The elements comprising the private sector must give full value to the fact that their progress must take place largely within the provincial and municipal sphere of activity. While not bound to the restricted area, private operations are identified with the local and provincial communities. National policies can not have full meaning unless they are recognized and accepted within the context of local circumstances.

10. In our attempts to analyze the regional and local aspects of the situation, we have been reminded that there is a marked scarcity of reliable statistical data in this field. We can, however, attempt to indicate broadly the possible magnitude of public investment over the long term for government institutions in Manitoba. These projections must be accepted with reservations, for like all such forecasts they are at best only informed speculations.

11. In the past five years, the Province of Manitoba and its agencies, other than municipalities, made estimated new capital expenditures of some $450 million. In recent years the annual capital requirements have been running nearer to $100 million annually. It is our belief that the total of these commitments will tend to level off and perhaps reduce somewhat for the next five years as a substantial part of the recent expenditure programme has been in the nature of an up-grading of existing services and facilities. However, by assuming a rough stability, we can see the approximate direction of provincial capital requirements in the years immediately ahead.

12. For the municipalities, related bodies and public institutions, an even greater freedom of estimate is necessary. We have attempted to compute these long term requirements and we have found that on the basis of the last five years experience they have totalled over $140 million -- approaching $30 million annually. While in this area, again, there has been some overtaking of delayed improvements, it would appear that the related capital requirements for the next decade will continue to be an important factor in the long term money market.

13. These commitments are not extravagances. In fact, they may well be unavoidable for it is only in the atmosphere of public improvement that private enterprise will flourish. Without schools, roads, bridges, waterworks, sewers, hospitals, universities and the countless other facilities furnished or aided by government, private enterprise will not invest or progress.

14. Inasmuch as the public investment programme must support private development, it is not an end in itself. We must emphasize that response from private enterprise is essential if our free economy is to be maintained. It is our general view that government should only undertake what it can do better than private enterprise and that effective private response as well is essential to our purpose.

15. Manitoba has shown that this is more than a mere matter of words. The Province, in co-operation with industry and business, is now concerned in a very extensive examination of the economic aspects of Manitoba's future. The Committee on Manitoba's Economic Future is well into its studies and it is our strong and confident belief that its findings will do much to show us the most effective way of combining the productive forces of government and private enterprise.

16. The picture of the provincial economy's requirements for long term capital over the next ten years are incomplete without some measurement of private capital needs. We have attempted this, after a review of new private capital investment for the past few years in Manitoba and current indications of need. We have then projected new private investment to 1971 on approximately the present growth pattern.

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17. This projection suggests a demand in excess of some $260 million per annum for the next decade and -- unlike the outlook for the public sector -- there is every reason to hope for and to expect an expanding rate of growth in the years ahead.

18. Taking public and private long term demands together, it would appear that the capital requirements for Manitoba will not fall far short of $400 million a year and may perhaps exceed this substantially.

19. Underlying this projection of the future are questions concerning the banking and financial facilities of the community. We must be assured of their capacities in relation to our needs. If these fail us, even briefly at critical times, our progress could be seriously harmed. The forecasts of need that we have attempted suggest the tasks to be met by banks, investment facilities and institutions and by the general public.

17. This projection suggests a demand in excess of some $ 40 million per annum for the next decade and [illegible] the outlook for the public sector -- there is [illegible] reason to hope for and to expect an expanding rate of growth in the years ahead.

18. Taking public and private long term demands together, [illegible] capital requirements for [illegible] will not fall far short of $ 20 million a year and may perhaps exceed this substantially.

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CHAPTER II - REQUIREMENTS FOR BALANCED REGIONAL DEVELOPMENT

1. The growth and expansion of the national economy in the Canadian Federal system must be based on the full utilization of the human and physical resources of each of the regions in the country. To date, however, economic growth in Canada has been such that optimum development within each region has not been achieved. Historically, for a variety of reasons, the economic development of Canada has tended to concentrate in the central regions while the development of the outlying regions -- based primarily on exploitation of primary resources -- has tended to be imbalanced. A more balanced growth of the various regions of Canada is essential.

2. Certainly a pre-requisite of efficiency in this area is flexibility. There is a need for any organization to meet and to react positively to change. There are many ways to an objective, some better than others. If one organizational structure or policy works well in some circumstances, it may or may not work as well in others. If we are operating a banking system in the 1960's that was essentially conceived in the 1860's, we are imposing unnecessary and unrealistic obstacles to progress.

3. Admittedly, the banks have changed. Their policies have shown flexibility and practical facilities have been altered and expanded. But we have to ask, "Has the banking concept -- even the philosophy of finance -- kept pace with the changing reality of mid-20th century economics? Have we come as far as is practicable with a system founded primarily on a philosophy that security was comprised of carefully protected capital? Can we continue to judge the soundness of investment in large part by the degree to which risk can be minimized?"

4. We suggest that our organizations for regional development must meet the need for new approaches and new techniques. We must express in these organizations new philosophy imposed by the new facts of our economic existence. The risk lies in standing still.

5. Responsibility will as always be a pre-requisite. In fact, what we really seek is extension -- growth -- rather than replacement of the financial apparatus. We would not wish to lose the essential stability that has marked Canada's financial system. We have in the past accomplished much within our financial framework -- albeit with special and prolonged extra-national capital investment. Our basic approach now to the stimulation of the necessary balanced growth in Manitoba is through public investment and support, and through provision of a sound basis and climate for effective private activity.

6. Five critical areas in sound development of our Province are northern development, the rationalization of resource industries in settled areas, the promotion of secondary industry, rural industrialization including the provision of agricultural credit, and the special financial problems of small business enterprises.

7. If balanced growth is to be achieved, it is necessary that the potential profits be attractive in all sectors and for this reason enterprisers must have ready access to capital at reasonable interest rates and on terms that enable them to retain control over capital under the inevitable stresses of a development stage. It is important to remove as many obstacles as possible from the path of development. The achievement of dynamic and profitable expansion requires the introduction of new ideas, products and methods into the economy. The financial climate for this must be established and maintained.

8. It is the policy of the Federal Government to foster and facilitate the development of the human and natural resources of Northern Canada. These northern regions constitute a vast physical and economic frontier whose development is of importance to the nation and to balanced regional and provincial economic growth. In co-operation with the Federal Government, a number of the Provinces, including Manitoba, have instituted similar programmes for the development of their northern regions. In fact, in terms of actual execution of the national policy, the Provinces are the principal instruments. This is an enterprise imposing immediate and long term obligations on the financial resources of the Provinces, with the return to be expected only over the longer period.

9. Mining and metal-processing activities have led to the growth of several flourishing new communities in Northern Manitoba but the region's economic resources remain only partially developed. Although the minerals of the Canadian Shield will continue to play a dominant role in the region's economic future, other resources, particularly timber and water power, can make an important contribution to the balanced economic development of the Province. The wealth is there. The realization of that wealth is both the goal and the problem.

10. While it is recognized that risk capital is essential to such development of natural resources in Canada, we have not yet been able to develop those large pools of money within our own boundaries from which such risk capital can be drawn in the amounts necessary to maintain economic growth at a rate experienced since the War. The shortage of risk capital from Canadian sources for investment in resources and industrial enterprises is all the more acute in the case of investment in Northern Canada because of the special conditions and high costs of development imposed by distance, climate and terrain. The result has been a heavy dependence on foreign capital which has in turn influenced the nature and pattern of development. Such investment has been geared primarily to the supply of high quality raw materials to export markets and not to the processing and fabrication of these materials. It has also resulted in the development of isolated pockets of such resources in the absence of a broadly integrated domestic industrial base.

11. We would urge that the Commission give special emphasis to a review of the availability, adequacy and provision of risk capital from Canadian sources for investment in the northern regions. And by the provision of risk capital we do not mean the encouragement of unthinking speculation of the kind that has existed in past years. It is our view that the financial institutions in Canada must accept a greater share of responsibility for facilitating northern development through the mobilization and provision of Canadian savings for these purposes. The conditions attendant on northern development may well require the establishment of special funds and institutions to facilitate research and development and to supplement and encourage application from individual sources of private funds for these purposes. It is idle to object to outside capital if we are unwilling to assume the same responsibilities ourselves.

12. As the result of changing technologies and increasingly competitive markets, the primary industries in the more broadly settled southern areas of the Province are in a state of transition. The situation -- both economic and social -- is particularly critical in the "problem" areas of the Province -- the Interlake area, South-east Manitoba and the area immediately west of Lakes Manitoba and Winnipegosis. These are areas which were given over to agriculture prior to adoption of scientific land-use techniques and their marginal return has always been low. The effects of quickening technological change and of the depletion of both land and forest resources are most severe. Very low levels of per capita income, and labour surpluses, make local solutions difficult. The primary industries of agriculture, forestry and commercial fishing in these areas require re-organization and consolidation. As a result of these measures, the labour force employed is likely to decline further as specialization occurs thus adding to the existing surplus labour for which alternative employment must be found.

13. Governments have assumed a major role in planning for the more efficient use of the resources in these areas. But the government programmes in themselves cannot achieve necessary economic development and the creation of the necessary job opportunities. There are special financial requirements and the most important of these is the need for capital on attractive terms -- and in relatively small packages -- to induce the establishment of processing and manufacturing industries in these regions. These must be industries that will utilize the indigenous labour and natural resources. The provision of this capital may -- as with northern development -- require special agencies or programmes to supplement the operations of existing public and private institutions. To complement the provision of capital on reasonable terms, consideration should also be given to special incentive programmes for industries establishing in these areas.

14. Basic conditions which place persistent obstacles in the way of continuing development and growth in an area such as Manitoba are those associated with limited access to

9. Mining and metal-processing activities have led to the growth of several flourishing new communities in Northern Manitoba but the region's economic resources remain only partially developed. Although the resources of the Canadian Shield will continue to play a dominant role in the region's economic future, other resources, particularly timber and water power, can make an important contribution to the balanced economic development of the Province. The wealth is there. The realization of that wealth is both the goal and the problem.

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11. We would urge that the Commission give special emphasis to the question of the availability, adequacy and provision of risk capital from Canadian sources for investment in the northern regions. And by the provision of risk capital we do not mean the encouragement of unlimited speculation of the kind that has existed in the past. It is our view that the financial institutions in Canada must accept a greater share of responsibility for facilitating investment in our resources through the institutional provision of Canadian savings for these purposes. The continued expansion of northern development may well require the establishment of a special financial institution to facilitate research and development and to supplement and encourage the flow of funds from individual sources of private funds for these purposes. It would be difficult to attract capital if we are not willing to assume the same responsibilities ourselves.

12. As the result of changing technologies and the transitional nature of the industries, the primary industries in the more recently settled southern areas of the Province are in a state of transition. The situation — both economic and social — is particularly evident in the "problem" areas of the Province — the Interlake region, Southwest Manitoba and the area immediately west of Lakes Manitoba and Winnipegosis. These are areas which were given over to agriculture prior to the adoption of modern farming techniques and their marginal return has always been low. The effects of modern technological change and of the depletion of both land and forest resources are felt severely. Very low levels of per capita income, and inadequate employment make solutions difficult. The primary industries of agriculture, forestry and commercial fishing in these areas require reorganization and consolidation. As a result of these measures, the labour force employed is likely to decline in these industries, and employment opportunities in relation to the existing surplus labour force in which alternative employment must be found.

13. Governments have an important role to play in assisting in this process and in the development of the resources of these areas. It is recognized that where the development of the resources is to be achieved, it is necessary to provide the necessary services and facilities. There are several basic requirements for the development of these communities: the need for capital and the need for skilled labour. The development of processing and manufacturing industries in these areas, and of the industries that will serve the domestic market, require [illegible]. The provision of this capital may [illegible] with [illegible] agencies or programs to supplement the operations of existing credit institutions. To complement the provision of capital, [illegible] programs of special assistance should also be given to [illegible] local programmes [illegible] in these areas.

14. Basic conditions which place persistent obstacles in the way of the economic development and growth of an area such as the [illegible]

capital and with instability of control over capital by enterprisers. These factors limit entry, expansion and growth. The Government of Manitoba is concerned that promising new businesses and expanding established enterprises be provided with a fair competitive position.

15. Balanced development of the regional economy requires a broadly-based industrial structure. This in turn necessitates both the expansion of existing secondary industries and the establishment of suitable new enterprises. Historically, this province has developed as a supplier of primary agricultural commodities and to a lesser extent industrial raw materials. In conjunction with this there have developed some raw material processing industries and small manufacturing and service industries oriented to servicing the regional market. However, given the current development of these types of industries and the likely pattern of their anticipated development in the future, they will be hard pressed to absorb the Province's growing labour force.

16. The full employment of the labour resources of the Province on a satisfactory basis requires the accelerated development of the existing secondary manufacturing industries as well as the establishment of a wide range of such industries. Such industries provide income and employment themselves and will also indirectly generate additional income and employment through the establishment of ancillary service industries. The achievement of an economy that has well developed primary, secondary and service industries is the basis of our concept of an internally balanced regional economy which contributes most satisfactorily to a sound national development.

17. It is our philosophy that Government has a responsibility to create the conditions wherein the type of industry described will develop in an atmosphere conducive to its success. The Government of Manitoba has devoted a good deal of energy toward this end. However, both the Government and entrepreneurs interested in developing secondary industries and ancillary service enterprises in these non-urban areas have found that the policies and practices of existing financial institutions are geared to serving larger urban centres. The difficulties of rural enterprise seeking to obtain capital from the existing institutions at reasonable rates has led the Provincial Government and the local rural communities to establish their own special institutions for this purpose.

18. We know that the re-orientation of the rural economy is a serious problem in Manitoba and it is our understanding that it is equally serious in other regions of Canada. It is our view that the solution of this problem will require the development of new types of lending institutions geared specifically to the capital requirements of rural industry and service establishments. There must also be appropriate changes in the controls and regulations covering private lending policies and practices.

19. In relation to the terms of reference of this Commission, we define small business as any enterprise whose needs for equity and loan capital are too small either to interest the investment sources or to be marketed publicly. Of all secondary manufacturing industries in Manitoba, over seventy-five percent have less than 15 employees and firms with more than 500 employees account for only one percent of the establishments and less than twenty percent of total employment. When it is considered that about eighty percent of the Province's manufacturing industry serves only the Prairie regional market and that over forty percent serves only the Province of Manitoba, it is apparent that small firms will continue to have a dominant position in the economy of this region for the foreseeable future.

20. Enterprises in this range have no ready access to the new issue market for equity capital and have difficulty in securing term bank credit or in persuading institutions to provide debenture capital -- much less equity participation. These difficulties, we believe, are related to the smallness of the enterprise, to the degree of risk involved and to the relative inability or unwillingness -- perhaps through lack of knowledge -- of many private institutions to make facilities and funds available to them.

21. While some constructive steps have been taken, institutional facilities have not developed sufficiently in Canada to supply adequate equity and loan capital to small business. Because of the lack of financing facilities, small business has only been able, on the whole, to secure equity and loan capital in an erratic, unorganized fashion.

[illegible] with instability of [illegible] over [illegible] by [illegible] [illegible] entry, expansion and growth. [illegible] new businesses and expansion, establishing enterprises [illegible] provided with a [illegible] tive position.

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Furthermore, in the absence of a sensitive market for funds available to small business, there is no assurance that society's limited supply of capital savings is being invested where it will be most productive in a regional context. The commercial banks, finance companies and factors are doing a better job of supplying small business with short and intermediate term credit than formerly. Our concern is, however, that there are still critical problems. Much more must be done. For example, small business has greater need for long term equity capital than for loan capital. Moreover, this type of financing requires not only adequate facilities, but also special methods of determining credit rating and fund application.

22. The Manitoba Development Fund and the Community Development Corporations were established in an endeavour to meet in part the special small firm requirements. The Federal Government has recently broadened the lending activities of the Industrial Development Bank. The enactment of and the pending amendment to the Small Business Loans Act are other positive Federal steps.

23. It is our view, however, that, although the public sector can thus serve partially to meet the capital needs of small business, further action is required. We would emphasize the impracticality of any approach that does not make full provision for the utilization of private initiative in the solution of economic problems involving private activities. We may as public authorities prime the mechanism, but the principal thrust should be found in the stimulus of private organization, and in the sustaining energy of private enterprise. It may well be that some greater degree of co-operative effort between public and private capital must be devised.

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CHAPTER III - THE ROLE OF THE PRIVATE SECTOR IN ORGANIZATION OF DEVELOPMENTAL CAPITAL

1. In the main, there are two principal sources of investment funds in the private sector. The internal savings of industrial and commercial undertakings have provided an increasing fund through which capital expansion has been financed. The second source is that part of the savings of individuals and corporations that is available either for debt financing or for equity investment. It is on this volume of earned savings that we must depend, if we exclude the creation of credit through monetary policy and the banking system.

2. The Commission might well wish to consider whether or not the tendency of business to retain an increasingly large share of its earnings as undistributed profits -- ostensibly to be ploughed back into capital expansion -- has not on occasion resulted in a diversion of funds from ultimate objectives which might have been more to the advantage of the economy. This may well be one cause of excess capacity that develops from time to time in some otherwise profitable industries. It could be more to the national advantage economically if the judgment of the market in such matters were allowed greater play. This situation exists in limited degree only, in Manitoba, if at all. However, we are concerned, for the more capital that is diverted to uneconomic expansion elsewhere, the less there is for economic expansion here.

3. One of the main sources of capital for local or regional development must be in the savings of our people. With the great spread of institutionalization of savings in recent years, this has become a restricted field in which to seek support -- particularly for small operators. Where this pool dries up, small business must inevitably suffer for, as we have noted, it is not in a position generally to use the facilities of the public issues market and must rely on private arrangements, government-supported plans, or the banking system. The last is properly effective only in the short run.

4. To an increasing extent, this may account for the tendency for control of industry to concentrate. Just as we have had to face the problem of absentee control of Canadian industry from the United States, many regions in Canada are experiencing a growing loss of local control. A "branch office" climate for business is emphasized. It is one with which we are only too familiar in Manitoba.

5. Even were we able to form any firm impression of the extent of private capital available for investment in the Province, it would be necessary to draw some conclusions as to what choices would be made as between equity and debt investment. We would have to make inferences as to the choices between local investment and national or international direction of the available funds. These matters could profitably be the subject of a good deal more study than has been advanced to date, on the evidence of the limited statistics available. What we can say is that we believe a principal solution for problems of private regional financing is, in an important part, one of better distribution of available capital -- perhaps even more than of increased volume for investment. The problems of regional development are exaggerated and made more intense by the present capital fund distribution. We are not proposing that the Canadian economy can or should be deliberately decentralized or that size and concentration should be considered bad in themselves. But we emphasize our previous suggestions that some greater consideration must be given to the smaller enterprise attempting to operate away from the centres of financial control. It is our view that this is a situation with implications -- both economic and sociological -- requiring urgent consideration.

6. Private institutional investment sources -- which include life insurance companies, trust companies and mortgage and loan companies -- now operate under legislation which is very specific as to the nature of investments that may be made by the institutions. Equity or risk capital is actually made available in relatively small amounts, and then only to firms with long histories of good earnings. Trustee responsibilities preclude all but the strongest credit risks and consequently only large businesses have these sources of capital open to them. Under these circumstances, most Manitoba firms in the development stage cannot look to these sources for funds. We do not wish to labour this point, but it deserves consideration.

CHAPTER III - THE [illegible] [illegible]

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6. Private [illegible] and investment [illegible] banks, trust companies and [illegible] law, which [illegible] institutions [illegible] investments, and [illegible] [illegible] institutions [illegible] [illegible] have [illegible] [illegible] [illegible]

7. A significant criticism of the insurance companies in particular has been that they have been reluctant to take any substantial equity position. They have tended to prefer safe and relatively certain investment such as bonds and mortgages. Of course, the insurance companies are limited by law as to the kind and amount of common and preferred stocks which they can include in their portfolios. Even here, however, they have frequently followed a far more conservative policy than that dictated by the legal limits and, while the factor of relative earnings will account for some part of this attitude, it is not the whole answer.

8. The Winnipeg investment community inevitably suffers by comparison with financial centres of Eastern Canada. The "branch office" climate is most evident and there are only limited underwriting facilities -- either staff or capital -- among the Winnipeg investment dealers. Here is a symptom, if not a cause, underlying the difficulty encountered in organizing private capital participation in our regional development. We are not at all sure that the barriers to improvement are not more psychological than practical. We seem to see a lack of focus on regional opportunity among private organizations. Perhaps the lack has been inevitable in the climate of financial centralization, but this is no reason why it should continue.

9. We readily concede that there are problems and difficulties to be overcome in any attempt to improve the organization of private developmental capital potential. While no quantitative estimates are readily available as to size of holding, the private investor in Manitoba may be presumed to be a significant source of potential development capital. However, an impression persists that capital held by individuals will be very cautiously committed to development. As a result, this sector is not as active as it might be in the fostering of economic growth within the Province. In many instances, the Manitoba investor prefers his Credit Union or Government Bonds -- witness the interest in Manitoba Savings Bonds -- or investment in his own enterprise, whether it be a farm or a business. The Manitoba investor has not been exposed to the same volume of mining or oil issues as have his counterparts in Alberta and Ontario -- and this may be all to the good. Still, he seems to be reluctant to take an equity position in new industrial enterprises and in particular in enterprises which have a "local industry" development flavour. Savings are often placed with national institutions whereby the money may well be applied in some other part of the country. We believe this reluctance to participate may be more the result of limited experience in investment matters rather than any conscious unwillingness to participate. There seems to be a fertile field for private initiative here.

10. Many of the family fortunes in the province are now administered in an almost institutional manner. There are few first generation fortunes in Manitoba, made in the last 15 to 20 years, in comparison with other parts of the country such as Alberta, British Columbia, Ontario and Quebec. Administrators of such fortunes are more inclined to seek equity situations which have good prospects for growth and their investments thus tend to stimulate industrial development. The ethnic background of Manitoba may also have a conservative influence on saving and investment patterns. Far more detailed and useful information is needed on the saving and investment pattern within each province or region and on the flow of funds between regions. This is a matter to which the Commission might wish to devote attention.

7. A significant criticism of the insurance companies in particular has been that they have been reluctant to take any substantial equity position. They have tended to [illegible] safe and relatively certain investments such as bonds and mortgages. Of course, the insurance companies are limited by law as to the kind and amount of common and preferred stocks which they can include in their portfolios. Even here, however, they have frequently followed a far more conservative policy than that dictated by the [illegible] limits and, while the factor of relative coverage will account for some part of this attitude, it is not the whole answer.

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9. We readily concede that there are problems and difficulties to be overcome in any attempt to improve the organization of private development capital [illegible]. While no quantitative estimates are readily available as to [illegible], the [illegible] investor in Manitoba may be presumed to be a significant source of potential development capital. However, [illegible] that [illegible] held by individuals will be very cautiously committed to development. [illegible], this section is not [illegible] it might be in the fostering of economic growth within the Province. In many instances, the Manitoba investor prefers the credit [illegible] or Government [illegible] — [illegible] interest in Manitoba Savings Bonds — or investment in his own enterprise, whether it be a farm or a business. The Manitoba investor has not [illegible] the [illegible] volume of mining or oil [illegible] [illegible] and this may be all to the good. Still, he seems to be reluctant to [illegible] in new industrial enterprises and in particular in establishments [illegible] have [illegible] [illegible] development [illegible]. Savings are often [illegible] of a national investment whereby the money may well be applied in some other part of the country. We [illegible] this reluctance to participate may [illegible] the result of [illegible] investment matters rather than any conscious unwillingness [illegible]. [illegible] a fertile field for private initiative [illegible].

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CHAPTER IV - THE CHARTERED BANKING SYSTEM AND ITS ROLE IN REGIONAL DEVELOPMENT

1. The Canadian banking system has developed along traditional British lines with a strong central bank and a limited number of large, nationwide chartered banks, each with many branches. This has inevitably led to a concentration of power and decision-making in Eastern Canada where the head offices of the central bank and the chartered banks are situated. Even though there is no deliberate intention of neglecting the financial needs of the Atlantic Provinces and Western Canada, the chartered banks are far more likely to be responsive to the needs of industry in the area in which the head offices are situated. This is not a particularly important problem in Britain for obvious geographic reasons, but even there London's financial supremacy undoubtedly influences the flow of loanable funds to industry and commerce in the provinces.

2. As Manitoba is primarily an area with a very high proportion of small and growing businesses, the role of the chartered banks is extremely important to the economic development of the Province. While the chartered banks appear generally to have met the needs for short term credit in a satisfactory manner, a review of their activities in the Province, however, suggests that the following matters warrant further enquiry. We do not suggest that these comments can be unique or newly presented to this Commission. We can do no more than confirm what we would assume other regional submissions will attest.

3. The chartered banking system's national outlook and centralized control, and by tradition its policies and practices in general, have not favoured balanced regional growth in Canada. The chartered banking system has been comparatively slow in adjusting to the changing needs of the various regions, particularly in respect of such a transitional economy as that of Manitoba.

4. The chartered banks contend that their lending policies are uniform -- that from the policy point of view there are no variations in lending activities regionally or by kind and size of industry. This uniform policy is usually summarized as being one within the limits of the banks' financial resources and commensurate with a desire to extend short term credit to any credit-worthy borrower who can provide reasonable security. It is not often made explicit that the bank's knowledge of the borrower is necessarily an important factor in determining his credit rating.

5. We accept the contention of the banks that they attempt to implement this policy on a uniform basis by province and industry. However, within this framework there are possibilities that the uniform policy will operate with some uneven incidence. Statistically, factors that might prove this point include the fact that the financial resources of the chartered banks are not completely within their control -- that often the dictates of national monetary policy operate to curtail their activities. The banks now operate with a 6 percent interest rate ceiling, which sometimes means that credit has to be rationed other than on a price basis. Although, with respect to small loans, there has been a suggestion that this ceiling is "circumvented" by various techniques of installment or service charge arrangement, the principle stands in that there is this basic element of inflexibility in the rate structure.

6. The application of "blanket" policies cannot have a uniform impact in each region. For the transitional economies with a high proportion of small business, and where few alternative sources of capital funds are available, the effects are most significant. To promote balanced regional development in Canada, it is therefore important to investigate the means whereby the needs and problems of the various regions in Canada will receive due consideration in the central formulation of policies by the chartered banking system. Recognition of the fact that the requirements of the different parts of Canada are not always the same seems essential to our economic progress.

7. Further enquiry should be made into increasing the effectiveness of the fixed capital loans made by the chartered banks under the auspices of such legislation as the Small Business Loans Act, the Export Credits Insurance Act and the National Housing Act. Such long term financing is of particular importance to Manitoba. The present

administration of these loans has been hampered to a certain extent by the lack of adequate publicity, knowledge and experience. There would seem to be even further room for expansion, particularly in the area covered by the Small Business Loans Act and in export credit financing.

8. We have been handicapped by the lack of statistical information in respect of the regional activities of the banking system. Just as the chartered banks advocate clearer and faster communications with the Bank of Canada, the nation has a right to expect the type of information from the chartered banking system that will enable appraisal of the effectiveness of that system in serving the needs of the various regions in Canada. We would suggest that such useful data might include classification -- with adequate safeguards for the confidential status of individual transactions of course -- of loans by regions, by size of loan, by purpose and by size and type of borrower. Such information could be supplemented by reports from other financial institutions which are assuming increasing importance, and these in turn should be regionally oriented. At present, without adequate information, it is difficult to appraise even the limited performance permitted under present regulations and policies of the banking system as suppliers of capital for regional development in general and for small business in particular.

9. Canada is rather unique in that its commercial banks have such large savings deposits. In the United States, for example, time deposits comprise only about one-quarter of total commercial bank deposits. About one-third of the savings in that country are in mutual savings banks rather than in commercial banks. Statistics suggest that a large part of Canadian savings deposits might be termed "inactive" from the depositor's viewpoint. The Bank of Canada statistics used to carry an estimate of "active notice deposits" which comprised public notice deposits other than estimated quarterly minimum balances in personal savings accounts and non-personal notice deposits. At that time, it was estimated that roughly five-sixths of notice deposits were relatively inactive in respect of depositors' activity.

10. It would appear largely unnecessary for the Canadian chartered banks to carry securities of a highly liquid nature against the relatively inactive portion which, if we apply the five-sixths figure to current personal savings account deposits of $7.8 billion, amounts to some $6.5 billion.

11. If one deducts the total of long term credit items granted under such acts as the Farm Loan Act, the National Housing Act and the Small Business Loans Act and similar arrangements and also the 15 percent liquidity reserve from the $6.5 billion odd of savings the longer term use of which depositors show no great disposition to discourage, there remains something in the neighbourhood of $4 billion in these savings deposits quite reasonably available for longer term lending. It is suggested that some greater part of these funds might be segregated and used in part at least for long term investment in municipal and school debentures. While many of the medium sized and larger cities have no difficulty in marketing their debentures, it has been long recognized in Canada that the small and less well known municipalities experience varying degrees of difficulty. It is not that these communities are poor risks, but rather that the ordinary channels for financing municipal and school district debentures are not geared to process their relatively small and often unknown issues.

12. According to the 1961 Annual Report of the Bank of Canada, the estimated net increase in outstanding securities of municipal governments amounted to some $252 million in 1961. The proportion borrowed by smaller centres would not be overwhelming, we suggest. While we acknowledge the part that banks play as members of purchasing groups for municipal securities, it could be suggested that the banks would not only be doing themselves a service through investing in these relatively safe, high yield securities, but would also be assisting Canada in expanding necessary municipal social capital. The method of uniform annual payment covering principal and interest -- the means frequently used in issuing municipal and school debentures -- is ideal for investment from a revolving fund, which the commercial banks would no doubt prefer, since they would be left free to expand or contract the amount allocated to this municipal loan purpose. If the Federal Government were to undertake to give a guarantee of the type given under the Farm Improvement Loan Act, it is possible that an agreement could be worked out whereby

administration of these loans has been hampered [illegible] by the lack of adequate publicity, knowledge and experience. There would seem to be even further room for expansion, particularly in the area covered by the Small Business Loans Act, and in export credit insurance.

8. We have been handicapped by the lack of statistical information in respect of the regional activities of the banking system. Just as the chartered banks provide clearly and fast [illegible] with the Bank of Canada, the nation has a right to expect the type of information from the chartered banking system that will enable appraisal of the effectiveness of that system in serving the needs of the various regions in Canada. We would suggest that such useful data might include — with adequate safeguards for the confidential nature of individual transactions — an analysis of loans by regions, by size of loans, by purpose and by [illegible] of borrower. Such information could be supplemented by reports from other financial institutions which are assuming increasing importance, and these in turn should be regionally oriented. At present, without adequate information, it is difficult to appraise even the limited performance permitted under present legislation and policies of the banking system as suppliers of capital for regional development in general and for small business in particular.

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11. According to the [illegible] increase in outstanding credit [illegible] million in 1961. The proportion [illegible] we suggest [illegible] while [illegible] grounds for [illegible] themselves [illegible] way [illegible] assisting Canada [illegible] method of [illegible] used in issuing municipal and school debentures [illegible] volving fund, which the community [illegible] free to expand [illegible] Federal Government [illegible] Improvement Loan Act, it is possible that [illegible]

the Provinces would join the Federal Government in standing behind the guarantee, or by undertaking to arrange for "withholding" or "trusteeship" agreements such as are presently in effect on most Manitoba school securities.

13. If individual banks were to feel that the setting up of sections to handle municipal and school financing would involve disproportionate cost, they might well look into the possibility of forming, perhaps with a group of insurance companies, what is known in the United Kingdom as a consortium. Under such an arrangement the bank members of the consortium might take up the portions of the debentures issues which are of shorter duration while the insurance companies might acquire the longer maturities. An advantage of the consortium arrangement would be that regional staffs might be established to become expert on regional problems. The banks could thus gain that degree of specialization, the lack of which at the present time tends to hamper the marketing of these small issues. With staff specialization, this very smallness of issue would become an advantage through the distribution of risk.

14. The consortium type of association is, of course, transitory and resembles the syndicate type of arrangement in which Canadian chartered banks now take part from time to time. However, we would envisage the formation of something of a more permanent nature so that there would be the staff advantages suggested. There exist in the United Kingdom two financial organizations which are permanent in nature and based on the consortium principle. Mention of these will be made at a later point.

the Provinces [illegible] in the [illegible] by undertaking to arrange [illegible] presently in effect [illegible] Manitoba school securities.

13. If Industrial banks were [illegible] of the setting [illegible] and school [illegible] would [illegible] possibility of forming [illegible] with a group of [illegible] the United Kingdom [illegible] of the consortium [illegible] shorter [illegible] An advantage of [illegible] would be [illegible] established to become [illegible] degree of specialization, [illegible] issue would [illegible]

14. The consortium type of association [illegible] syndicate type of arrangement [illegible] time to time. [illegible] permanent nature [illegible] in the United Kingdom two [illegible] based on the [illegible]

CHAPTER V - THE BANK OF CANADA

1. It is not our purpose to attempt to inform the Commissioners of the technical workings of the Bank of Canada. Of these they will be well aware. Our purpose is to indicate the manner in which the operations of the Bank may affect the development of this Province. We will suggest some ways and means by which we believe a degree of improvement can be attained.

2. Essentially the Bank has two main purposes, the influencing of the economy through its function as the controller of the monetary system and as the fiscal agent of the Government of Canada. Both functions have important economic consequences for Provincial entities.

3. Insofar as control of the monetary system is concerned, the activities of the Bank have been directed toward the attainment of a high, broad national level of activity. We would not argue that this is not reasonable and desirable. The Bank is the creation of the Federal Parliament and is the principal monetary instrument of the national Government. Nevertheless, it is our view that the responsibility of the Bank should not be circumscribed, but that truly national purpose requires that it give proper weight to the varying needs of the component parts of the country. In short, the Bank should -- if it is to promote a sound national economy -- consider, not only the general average of national needs, but the conditions of those individual parts which go to make up the nation.

4. We are aware, of course, that adequate attention to regional considerations -- apart from the use of moral suasion by the Bank of Canada -- would necessitate a re-organization of not only central bank activities but also of the chartered banking system in Canada. The Bank of Canada, of course, does in some measure attempt to take regional requirements into consideration in discharging its national functions. It maintains regional offices and its Board of Governors consists of regional representatives. It is our view, however, that some further degree of decentralization of central bank activities is worthy of consideration and that provision could be made for a more effective means of ascertaining and acting upon regional requirements. We are certain that, in this regard, the Commission will be examining the operation of the federal reserve bank districts in the United States.

5. Since the British North America Act imposes such broad responsibilities for the development of the resources of the individual Provinces upon the Provincial Governments, without corollary benefits of financial control, it would appear to be appropriate that some degree of effective financial influence should be entrusted to representatives in the region. Clearly this influence should be subordinated to the central necessities of monetary organization and management, but it should be possible for regional needs to be more adequately reflected in national decisions.

6. We note that the regional federal reserve banks in the United States are subordinate to the Board of Governors of the Federal Reserve System, but they have the right to establish their own discount rates and elect members to the Board of Governors of the system. They also engage in extensive regional economic research both to guide their own policies and those of their members and to inform the Board of Governors of their special regional needs and problems.

7. The problems of regional variations of monetary policy in any national state are recognized to be difficult ones. But it is our view that these have not received sufficient attention in Canada. It has been all too easy to be content with the statement that monetary policy is a blunt instrument, rather than make any positive attempt to find improvements, if not in the policy itself, at least in the related fields that are subject to regional discretion and control. If we are ever to overcome the unsatisfactory variances in economic activity in the different parts of Canada we must be prepared to accept measures that are not perfect, but which are at least measures that move toward the goal of more equitable and balanced regional distribution of Canada's economic wealth.

8. No one would dispute that, within the business framework, there are different

intensities of demand at different times. No banker would consider it reasonable to apply the same criteria to every customer who sought his assistance. It is no less true that, in the different context of monetary policy, one approach for the whole country is going to be right for some regions and very wrong for others. It is, in our opinion, not too much to ask that a more concerted attempt be made to develop a workable system of regional application so that our central policy may be implemented in a more pliable way and thus more consistently with the varying economic demands of the country's different economic regions. We commend this to the Commission as a subject for further active study.

9. The secondary function of the Bank of Canada is to act as the fiscal agent of the Government of Canada. This very comprehensive activity extends throughout a substantial area of financial management, so that, in fact, the Department of Finance has now a rather subsidiary part in an important sector of this increasingly vital area of Federal Government finance. It is interesting to note that the Bank is also empowered to act as fiscal agent for the Provinces but has never as yet been willing to assume this role.

10. While this identity with the central government in itself may seem a logical and unobjectionable aspect of the central bank's operations -- one that is found in the practice of the Bank of England -- there is one basic point to which consideration should be given. The Bank of Canada at present is acting for one government in a federal state of eleven governments, each sovereign in its own field. The Bank's activities in such circumstances are unavoidably directed to the advantage of its principal. For this reason there has been, in our view, a noticeable tendency for the functions of the Bank as the central monetary authority to be correlated with its functions as the fiscal agent of the central government, regardless of how this affected the ten other authorities that comprise the over-all government of Canada. This is not to say that such single-mindedness would not exist in the Department of Finance if it held control of its own financing operations, but there would be an opportunity to condition the emphasis through an independent position of the central bank.

11. We do not argue here that the Bank of Canada's fiscal efforts necessarily have been wrong, inefficient or deliberately harmful to the Provinces. But it is a frequently accepted fact in financial circles that the Bank of Canada's interests have inevitably extended almost exclusively to the benefit of the Government of Canada without any particular weighing of the sometimes conflicting interest of the Provinces and their municipalities. Of late this condition has been mitigated by some apparently greater consideration for Provincial interests, but the practical relief has been minor and may well be transitory.

12. It would seem essential that the Bank of Canada do either of two things. It must broaden its activities so that its fiscal operations embrace the whole field of Canadian governmental finance, without prejudice, or it must withdraw from activity associated with fiscal agency and confine its activities in relation to the management of the economy to operations in the monetary and banking system where some wider measures of control, involving credit agencies beyond the formal banking system, may be required.

13. While the Province of Manitoba would be quite willing to have a much closer relationship with the central bank than is now possible, it does not seem likely, in view of past history, that this would be generally acceptable. Under these circumstances, it is our opinion that the Bank of Canada should relinquish its position as fiscal agent of the central government, at least insofar as open market dealings are concerned, and that this function should be returned to the Department of Finance. In this way the Provinces would be placed on an equal basis in the money markets, within the limits of their respective credit standings. As it is now, the Provinces find themselves involved in a purely secondary financial and fiscal operational role vis-a-vis the central authorities. The assumption by the Bank of Canada of the position of a disinterested arbiter in the field of public finance, would, we believe, be to the great advantage of the country as a whole.

intensities of demand at different [illegible]. [illegible] considerations [illegible] apply the same criteria to every [illegible] sought [illegible]. [illegible] true that, in the different context of [illegible] policy, [illegible] country is going to be [illegible] for some regions [illegible] opinion, not too much to ask [illegible] and [illegible] more [illegible] able [illegible] of regional application [illegible] more pliable way and thus more consistent with the [illegible] country's different economic regions. We [illegible] this [illegible] ject for further active study.

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12. It would [illegible] essential [illegible] broaden its activities [illegible] governmental finances, without [illegible] with its agency [illegible] economy [illegible] of control, involving [illegible].

13. While the Province [illegible] relationship with the central bank [illegible] of past [illegible] situation [illegible] fiscal agency of the [illegible] economic [illegible] the way the [illegible] of place [illegible] the line of their financial [illegible] serious [illegible] the central authorities. [illegible] disbursement [illegible] the Bank [illegible] advantage of the country as a whole.

CHAPTER VI - THE SPECIALIZED AGENCIES OF DEVELOPMENT

1. The Industrial Development Bank, organized in 1944, has moved from its original concept as a source of medium and long term funds primarily for manufacturing firms, to an organizational role designed to fill the needs of all types of business enterprise for a variety of capital purposes. The growth of the Industrial Development Bank has confirmed the existence of the gap in capital financing which it was designed to help fill and the response to the recently broadened terms of its operations is further evidence that certain sectors of the business community are still frustrated by problems of capital financing.

2. This in turn indicates a need for further extension in the Industrial Development Bank's approach. It is suggested, for example, that the industrial development agency should put its prime emphasis on economic development and not on banking. A review of loan approval by the Industrial Development Bank in the period 1956 - 1961 and the money availability during each year indicates -- in examining the year to year changes and their relationship to alternative periods of easy and tight money, and to the demand for funds over the business cycle -- that the Industrial Development Bank may to some extent have been regarded as an arm of monetary policy rather than primarily as an agent of industrial development. Such conflict between the interests of monetary policy and industrial development must be reconciled if the Industrial Development Bank is to be of optimum efficiency in achieving its developmental objectives. The activities of the development banking agency assume major importance during a period of tight money and it is difficult to justify any curtailment of these operations during such periods. If it is determined that it may be regarded by its parent, the Bank of Canada, as an agent or arm of monetary policy then a revision in policy is required, perhaps to the point of a structural separation of the two agencies.

3. A second suggestion concerning the Industrial Development Bank involves the need for the identification of the Bank's branches with the special interests of the regions and the Provinces in which they are situated. In common with many other financial institutions, the Industrial Development Bank seems to suffer from the aforementioned "branch-office" climate. By this, we mean that the personnel in regional offices tend, of necessity, to regard their activities as of a branch operation type, directed from the centre with uncertain local influence on judgment or policy.

4. While the Industrial Development Bank has generally allocated its funds fairly among the regional areas in Canada, there is not that maximum of decentralization of decision-making necessary to make the allocation fully effective. There is a need for more flexibility in order that the regional offices may identify more closely with local needs and special problems. As we have stressed, each region has unique characteristics which cannot be equitably met by a national set of rules. The regional offices of the Industrial Development Bank should play an integral part in the provincial and regional industrial development programmes and should integrate with the programmes of the agencies and the business communities in each area.

5. A third suggestion to the Commission is that the role of the Industrial Development Bank should be reviewed in relation to the various provincial industrial development agencies which have been established. The Manitoba Development Fund and the Community Development Corporations in this Province have indicated that the gap between the supply institutions and the firms seeking funds is wide and that new institutions and changed terms of reference for the institutions already in the field are required. The Commission might wish to survey this gap and perhaps suggest added terms of reference for the Industrial Development Bank and other agencies. Furthermore, the Industrial Development Bank, as the senior and most affluent of the specialized development financing agencies, should carry out a continuing scrutiny of the business sectors in co-operation with the other Federal and Provincial industrial development and development financing agencies, to ensure that, through direct action or assistance to these other agencies, the needs of business are met so as to foster the optimum development of each region of the country. Another way in which the Industrial Development Bank might assist the provincial lending agencies and industrial development agencies is through establishing access to the research studies which are carried out by the Industrial Development Bank head office and branch office staff. The release of these reports would save extensive duplication of effort and would lead

to the development of more effective research techniques. The industry-wide and general feasibility studies could be exchanged without breach of confidence and the reports on specific projects could be exchanged on a confidential basis by the loan agencies as responsible credit sources.

6. In summary, it is our opinion that the Industrial Development Bank, as a pioneer in filling the gap between traditional suppliers of capital and business enterprise seeking capital, has performed a most useful function. But much still remains to be done if such economic growth is to take place in Canada as will achieve optimum utilization of our natural and human resources. We require every aid to the strength and stability of a balanced regional growth. The Industrial Development Bank should function as an agent for industrial development and not as an arm of monetary policy if it is to perform its role most effectively. Furthermore, the Industrial Development Bank should operate not as a series of branches governed by an eastern head office but rather as a federation of nationally sponsored regional agencies. Finally, the role of the Industrial Development Bank as a national industrial development institution should be altered to make possible direct co-operation with the provincial and community industrial development funds.

7. The Manitoba Development Fund was established in 1958 because it was felt that many potentially profitable business operations were hampered or prevented from successful operations because of a lack of capital. In its 3 1/2 years of operation, the Fund has approved and extended loans of approximately $10 million to all types of manufacturing and processing operations as well as to tourist operations. Over two-thirds of the loans are in rural Manitoba, indicating the particular needs of rural industry. The experience of the Manitoba Development Fund has indicated that many sound small business loan opportunities exist and that without such special institutions, many small firms could never have been established.

8. A provincial loan agency such as the Manitoba Development Fund can perform a valuable function since it is close to the needs and operations of the local business community. It has both direct and indirect benefits of economic development foremost in view. In having a regional board of directors, it can make rapid decisions with immediate knowledge of the factors involved. A further advantage of such agencies is that since they are seeking the benefits of employment and economic growth rather than return, above recovery, on investment, they tend to perform more extensive advisory services. Such agencies also have the advantage of being closely allied with the industrial promotion services of government.

9. To make provincial agencies such as the Manitoba Development Fund more effective, the Federal Government, through the Industrial Development Bank, might participate in such proven agencies through the provision of equity or other capital. This step would greatly increase the effectiveness of such provincial agencies when it is recognized that they might also reach a stage at which they could sell their obligations in the normal credit markets or to local financial institutions which have an interest in the economic growth of the region.

10. As one means of fostering the objective of economic diversification -- particularly in the rural areas -- the community development corporations were conceived in Manitoba as self-help institutions. These agencies raise equity or other capital locally for the purpose of providing physical facilities for industrial firms. Assistance may be obtained from the Manitoba Development Fund on a loan basis for the purpose of a specific project. In addition to financial assistance, technical advice is sought from the Fund.

11. Community development corporations are particularly effective in small communities of generally less than 5,000 population. They act to muster local capital -- normally diverted to national institutions for the benefit of other areas -- to be used for local development purposes. The funds raised locally have, to date, been used both for small business establishments of local entrepreneurs and for small firms attracted from outside the community. In those communities of more than 5,000 population, a new form of institution to parallel the community development corporation may be required to supplement the efforts of the existing institutions.

12. Perhaps what is needed in Canada is an organization along the lines of the

to the development of more effective [illegible] techniques. [illegible] industry [illegible] general feasibility studies could [illegible] without [illegible] reports on specific projects could be exchanged [illegible] agencies as responsible credit agencies.

6. In summary, it is our [illegible] that the [illegible] as a [illegible] in filling the gap between traditional suppliers of capital [illegible] has performed a most useful function. [illegible] such economic growth is to take place [illegible] our natural and human resources. We [illegible] of a balanced regional growth. The Industrial Development [illegible] for industrial development and [illegible] form its role most effectively. Furthermore, the Industrial [illegible] operate not [illegible] a series of [illegible] interests of [illegible] regions [illegible] Development Bank as a national [illegible] make possible direct co-operation [illegible] provincial and [illegible] development funds.

7. The Manitoba Development Fund was organized in [illegible] many potentially profitable business operations were [illegible] successful operation because of a lack of capital [illegible] Fund has approved and extended loans [illegible] manufacturing and processing [illegible] [illegible] of the loans are in [illegible] industry. The experience of the Manitoba Development Fund [illegible] sound small business [illegible] many small firms could never [illegible]

8. A provincial loan agency, such as the Manitoba Development Fund [illegible] [illegible] community. It [illegible] [illegible] [illegible] [illegible] that they are [illegible] benefits of employment [illegible] growth, above recovery [illegible] investment [illegible] [illegible]. Such agencies also have the advantage of [illegible] local promotion services [illegible]

9. To make provincial agencies [illegible] effective, [illegible] to participate in such [illegible] the provincial [illegible] [illegible] is recognized [illegible] of the [illegible] credit [illegible] the economic growth of [illegible] region.

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11. [illegible] development corporations are [illegible] of generally [illegible] 5,000 [illegible] form [illegible] [illegible] local development [illegible] [illegible] [illegible] the community [illegible]

12. [illegible] what is needed [illegible]

American Research and Development Corporation (A.R.D.) to provide risk capital. A.R.D. was incorporated on June 6, 1946, in Massachusetts. It is a closed-end non-diversified investment company of the management type. The company is a financial vehicle through which individuals and institutions may participate in a wide range of venture capital enterprise. The firm does not merely invest in the ordinary sense; rather it seeks to "create and develop" by taking calculated risks in selected companies which it believes have good possibilities, aiding them with both capital and management consultation.

13. In 1945, two new financial organizations came into being in the United Kingdom which were designed to fill gaps which appeared to exist in the machinery for financing industry. The Finance Corporation for Industry is the larger of the two corporations and it caters to the financial requirements of larger firms. It was set up to assist in the development of projects of national importance which could not, for one reason or another, obtain the necessary financing through normal channels. Its capital is held in three equal parts by the Bank of England, the insurance companies and the investment trusts. The Board of the Finance Corporation for Industry is assisted by an Industrial Advisory Panel which is representative of a wide range of industries and of labour. The minimum sum which the Finance Corporation for Industry will provide to any one borrower is £ 200,000 with sums below this figure being handled by the other financial organization set up in 1945 -- the Industrial and Commercial Finance Corporation.

14. Basically, all that financing is meant to accomplish is the smooth transmission of money from those who have it to those who know how to use it. If financial institutions and instruments do not achieve this purpose, if new savings are continually channelled into portfolio securities or what one member of the Canadian Senate referred to as "the enterprise and vision of preceding generations", then it is obvious that our financial intermediaries are not performing their proper function and that renewed demands for massive monetary injections by the Federal Government and central bank will not solve the structural causes of stagnation and unemployment.

15. Encouragement of new firms today is impeded by the structure of our financial institutions. Normal growth requires permanent or long term capital. Our banking institutions on the whole handle the demands for working capital and our investment community provides access to capital markets at reasonable cost for large amounts. But at the intermediate range, precisely at the point where new firms may enter into optimum growth, the sources of funds are relatively few and generally inadequate. We must be concerned with the continued investment of Canadian savings as the basis of development. Savings must be more readily enabled to serve an equity position or to provide long term funds in support of new firms and ventures. This will provide the intermediate support now lacking.

16. We in Manitoba have recognized another special need of our own economic community with the establishment of the Agricultural Credit Corporation. Since the 1940's there has been a shrinkage in the amount of long term credit available for farmers. Mortgage companies, insurance companies, and private lenders have been able to find more attractive outlets. Housing, heavy construction, and industry have drained the capital available. The Canadian Farm Loan Board did not prove adequate. For a short period after World War II, the Veterans' Land Act took up some of the slack but covered only about ten percent of the farming people -- a specific group within the agricultural community.

17. A rapidly changing agriculture has, over the past fifteen years, as a result of new technology being applied to modern farming and the added costs in that connection, made it more and more imperative that there be some source of long term credit available to farmers. It was felt that such credit should be available, firstly, to the young generation of farmers who will be taking over from their parents. Sons of farmers wishing to be established as farmers, and farmers already or partly established, require capital to enable them to become properly and soundly based on an economic family farm unit. The Manitoba Agricultural Credit Corporation was established early in 1959 to administer to this special situation.

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18. The Corporation has worked closely with the banks in establishing the credit rating of applicants and in creating sufficient credit to develop a sound economic unit. This applies especially to areas where bank managers have been stationed in the same region or locality for a number of years and are well acquainted with the farmers and their problems.

19. A brief study of credit facilities in North Dakota and Minnesota was made by the Corporation last fall. It was found that many of the banks in that area were employing agricultural graduates to handle their agricultural loans. Reports received indicated that each year more banks were initiating this practice. If this system is proving a success in the United States, it should be worthy of consideration in this country.

20. There are indications that in many cases there is now reasonably adequate credit available to agriculture. The problem is to ensure that this credit is put to its best possible use. The farmer must be an efficient, well-informed manager and the suppliers of credit must be able to give him sound advice. The study of credit facilities in North Dakota showed how assistance in this direction could be considered. In recent years livestock meetings have been held in the fall, preferably in livestock auction markets where different types of cattle would be on hand. All the main suppliers of credit and livestock extension personnel are invited to panel discussions with the potential borrowers. The officials in North Dakota believe these meetings have increased the availability of credit as both the farmer and the supplier have come to know more about each other's business and the problems involved.

21. There is one important exception to the statement on the general adequacy of present credit supplies. The amount, terms and conditions of intermediate term credit available for the livestock farmer is inadequate. This shortcoming can well retard the growth of our livestock industry -- the brightest area for increased farm production -- unless we improve the situation. It should not be too much to hope that an answer can be found through a closer liaison and co-operation between the Federal and Provincial Departments of Agriculture and the financial community.

22. We have used the operations of the Manitoba Agricultural Credit Corporation as a Manitoban example to indicate how a specialized public developmental agency can foster activity in a specific sector of the private economy. It is an object worthy of consideration in other sectors, we feel, but there are very real limits to the Province's financial abilities in this regard.

23. The federal agencies specializing in the supply or promotion of developmental capital also follow the precept that the financing of economic growth by government agencies is intended to supplement -- not to compete with -- the various private institutions. In most instances, the routine financing operation is performed by the chartered banks, life insurance companies and other institutions, with government acting as a guarantor or insurer of funds advanced from private sources. As a consequence, government developmental financing policy in the federal area is guided to a large degree by the policies of the private institutions. We have already noted that the latter have not yet adjusted their policies sufficiently to take care of Manitoba's needs for capital.

24. The Central Mortgage and Housing Corporation, the Export Credits Insurance Corporation, the Small Business Branch of the Department of Trade and Commerce, the Farm Credit Corporation, the Farm Improvement Loans Division of the Department of Finance, and the Depreciation Certification Division of the Department of Trade and Commerce all fulfill specialized roles in the organization of financial support for private economic activity, largely based on private funds with public underwriting or direction in some degree. Each has carried out a useful and needed function in the promotion of private enterprise and initiative. But all in all, the combined effect has left much to be done.

CHAPTER VII - CREDIT POLICIES REQUIRED FOR BALANCED REGIONAL DEVELOPMENT

1. The days when the development of an area could depend upon the will and labour of adventuresome individuals are, unfortunately, not ours. Development now must depend for success largely on many skilled entrepreneurs and adequately organized amounts of venture capital. While to an important extent the availability of funds will depend on broadly applicable credit policies, there are many local factors which may exert important influences on availability. These should have our particular consideration in a context of regional economics.

2. The credit requirements of a relatively undeveloped area are both different and more demanding of special attention than those of a capital intensive sector. The inducement of southern Ontario will not be found in rural Manitoba, and even in Greater Winnipeg there are basic differences in need and opportunity for capital investment when compared to the Ontario industrial complex. Although the compensating factors may be there for the seeking, Manitoba can not now compete on the same terms with Ontario for developmental or risk capital. It seems clear, therefore, that no one credit policy is going to be wholly satisfactory in every part of the country at all times. Restraint that may be necessary in a booming economy in one region may put an unfair and additional burden on business in an area where economic activity is not at an acceptable peak. To the extent that these views can be taken as valid conclusions, there would seem to be a reasonable argument for some greater flexibility in our credit system.

3. While this may lead logically to a conclusion that we espouse regional monetary policies, we are frank to say that we do not know of an effective way in which these can be created. Unavoidably, if reluctantly, we come to the conclusion that any action of significance -- for the immediate future -- must be channelled through the control of credit policies. Such controls could be specifically adjusted, however, to particular demands or needs.

4. The idea of direct economic controls in peace-time is not widely popular in Canada. Perhaps it is possible to achieve much of what we consider necessary through persuasion rather than through law. For example, a differentiation of interest rates by area would be a possible approach. The banking system is at present limited in its operations by the statutory ceiling of 6 percent for interest. This interest rate variation would be difficult to devise and more difficult to control. It is one approach, however, that must be considered.

5. More practicable, perhaps, would be a pre-determined policy for lending institutions whereby excess activity in one area could be dampened while at the same time activity in another sector could be actively stimulated. Such an approach would probably call for co-operative action and some changes in administrative and policy approach would undoubtedly be required of participating institutions. The difficulties that might be encountered through attempts at co-operative control might well seem lesser evils than the devil-take-the-hindmost philosophy of our present system.

6. One aspect of the developmental financing situation that has to be fully appreciated is that the local pools of small capital which not too many years ago could be relied upon to support enterprise are no longer as readily available. It is not long since every man of any substance was seriously concerned with accumulating a fund of his own for his days of retirement. These funds were available for investment on a local basis.

7. But this situation no longer holds to the same extent. At least, the pools do not tend to remain as localized. The total of investment capital may well have expanded greatly, but we believe that the residual part still in private hands is not big enough to overcome by its own weight the diversion of local investment funds into institutional hands and into national channels. It is a matter that must be given attention in view of the resulting emphasis on the part that institutions and other group investors play in the country's development. We have, through the community development corporations, proved that the local reserves of capital are still available -- but only when a positive effort is made to organize and focus their potential on the indigenous community enterprise.

8. Over the longer term, the main lending institutions which now control so much of investment capital should be encouraged to appreciate their responsibilities in the matter of economic development. The security consciousness of the institutional investor is understandable and necessary, and is in fact encouraged by law, but there does seem to be good reason to suggest that some greater weight should be given to the needs of smaller enterprise struggling for recognition and success. It is too easy to continue to support established enterprise in the larger centres of economic activity. Perhaps formal acknowledgement could be given in the application of institutional funds to having some predetermined percentage of the total pool committed to these smaller risk-taking ventures. Individual responsibility may be insufficient in this task and we may find that the development of some co-operative means is necessary. This should not be beyond our collective ingenuity.

9. The alternative to some greater flexilibity in the private sector involves direct governmental intervention in the credit aspects of development. Here the problems and the solutions are more direct for governments have a primary interest -- and often a basic responsibility -- in the correction of regional imbalance. As we have noted, the investment instrument of the Bank of Canada -- the Industrial Development Bank -- has made some limited attempts at variation in policy emphasis over different parts of the country in line with regional developmental needs. Whether this has been sufficient is another matter.

10. The part of provincial governments has been of greater emphasis. Through various agencies and in a variety of ways, funds have been supplied where normal lending institutions held aloof. It may be inevitable that the Provinces should become involved in regional credit policy creation in this way. But public responsibility for the overall creation of credit necessary to finance this country's growth is fundamentally that of the Government of Canada and of the financial institutions it establishes.

11. It would seem apparent, from the increasing activities of provincial credit authorities, that the funds available for legitimate demands for credit are not being properly distributed. We have given much emphasis in this respect. It is logical to assume that a greater attention to regional needs by the ordinary financing and banking média would leave the provincial governments responsible only for the marginal enterprises -- which would be more properly their role.

12. We have on previous occasions referred to the problem of attracting a sufficient volume of savings into investments in provincial and municipal securities at reasonable rates of interest.

13. It is generally conceded that much of the increased burden of public improvements has fallen on the provinces and their municipalities. We have looked at the methods employed in the United States in our efforts to reach an answer to this need. There, income tax exemption of state and municipal securities is enjoyed as a constitutional privilege and the effects have been quite startling. In Canada it would be a matter for Federal-Provincial co-operation.

14. There are certain obvious disadvantages to this proposal, but we think that the need for large amounts of social capital, particularly in the smaller local jurisdictions, merits a good deal more serious consideration of the idea than has been given it in Canada to date.

15. We are not alone in this view. In 1958, the President of the Royal Bank of Canada, the later Mr. James Muir, in his Annual Report, gave support to the idea as did the Supervisor of Investments of the Bank of Nova Scotia in October, 1959, at the Annual Conference of the Institute of Public Administration of Canada. We recognize, as they did, the difficulties, and we do not urge indiscriminate use of the device. But we do feel that the end results would justify further consideration of its value in providing funds for schools, hospitals, universities, sewerage and water systems, roads and other forms of essential works.

16. As a possible alternative or supplement to the latter proposal, we have also suggested that thought be given to the extension of the "dividend credit", as provided

in the Income Tax Act of Canada, to similarly restricted classes of provincial and municipal securities. We acknowledge that this originally was a means of off-setting some measure of double taxation of income earned from corporation profits. Actually, we suspect that the main purpose has been to encourage investment in Canadian equities. Therefore, if we accept that a basic purpose of the "dividend credit" has been to encourage investment in Canadian growth, we should have no real difficulty in accepting the logic of its extension into the field of provincial and municipal investment.

17. The idea of regional taxation differentiation for stimulation of development has not been well received by the Federal Government in the past, but there seem to be good reasons why the effect of fiscal policy in regional development should now be given greater attention. It has become accepted practice, in the Federal tax system, to give special concessions to resource industries -- for example, mining. There seems to be nothing illogical or impracticable in similar concessions to new industries in areas where development must be encouraged. Recovery of initial investment is important in both instances, and a tax-free period such as that granted to mines might be an important influence in broadening our industrial base. We suggest this approach as one that can be usefully explored.

18. While we have attempted to confine our remarks to the banking and financial aspects of the problem, it is not possible to neglect fiscal policy as an element in the problems that we face. One cannot be unimpressed by the rising concern in this country as to the unco-ordinated growth of our systems of taxation. While each tax in itself may usefully serve a purpose through its contribution to the provision of necessary public services, we do not seem to have any real knowledge of the overall economic effect of the various tax systems when taken in their total effect.

19. It is not enough for each government to concern itself only with its own financial needs. It must look to the effect of its policies on the economic life of the country, not in isolation, but as part of the fiscal system prevailing for the nation as a whole. These policies unavoidably are closely influenced by and linked to the activities of other governments. With the formal controls which prevailed over much of the Canadian tax structure now removed with the end of the tax rental agreements, it is more important than ever that we should give increasing attention to the co-ordination and co-operation necessary to stimulate and maintain the highest possible level of economic activity.

20. As we noted earlier in this submission, it may well be that the Commission will consider that the problems of taxation policy in Canada are beyond the scope of its responsiblities. If that is so, we can only urge that influence be exerted in drawing to the attention of all concerned the growing urgency of the need for a detailed examination of this whole question in the context of our present and future economic problems.

21. We believe that, before fundamental alterations in the financial and credit structure should be undertaken, there must be a thorough review of our entire fiscal structure. Without reference to the fiscal framework these changes could be irresponsible and without ultimate effect.

CHAPTER VIII - RESEARCH, INFORMATION AND ADMINISTRATION REQUIREMENTS FOR EFFECTIVE REGIONAL DEVELOPMENT

1. If capital funds are to be employed most effectively to promote growth of specific enterprise and the sound development of the regional economy, we must first overcome a general lack of regionally focussed economic, marketing and organizational research.

2. In the more highly developed and industrialized areas of Canada much research is generally carried out by established business enterprise, by independent private consultants who work on a retainer or fee basis, by a wide variety of financial institutions and by the larger scale of governmental department and agency programme that a wealthier community can better support. In our region, these research facilities are not fully available locally. The small and medium sized enterprises characteristic of the region do not possess the means to provide these services.

3. Greater participation by national and institutional bodies in market research, product and technical research and financial analysis could reduce the exploratory costs for small-scale business. Where the distances make freight and shipping problems so critical, accurate appraisal of markets can be essential to the success of a new enterprise. If small business is to be successful in the use of new capital, such research and advisory assistance must be provided to a degree which conventional financing institutions do not at present offer.

4. Traditionally, the financial and investment institutions in Canada have been passive in respect to regional industrial development. For example, although the commercial banks and the Industrial Development Bank have research sections or departments, in every case these are located in central Canada at or near the head office of the particular institution. Most of the research done by such institutions is very general and is geared to the central region. Even less information is actually made public. Most commercial banks and related institutions do have what are termed business development officers, but for the most part these officials work in the public relations field.

5. We would draw the attention of the Commissioners to the research and development role of Federal Reserve Banks and commercial banks in many parts of the United States. Each Federal Reserve Bank, we understand, has a large research staff, some of whom work on aspects of urban and rural economic research and on matters relating to the general economic development of the region concerned. This information of a public service nature may not be of direct interest to the banks themselves, but it is of interest to entrepreneurs hoping to locate plants or expand operations in the area. Assistance is provided in locating executive manpower, technicians and specialists. Market studies and information in the bank's research library are made available. Information on suppliers and business contacts in other cities or states can be located through the banks. General advice on underwriting procedures is available. Assistance in setting up unusual payment or credit instruments for special situations is provided. Counsel on the selection of accounting and other professional service firms is offered. Under the American unit banking system, such assistance is concentrated on developing specific localities and regions.

6. We would suggest that Canadian financial and monetary institutions concentrate much more than they have in the past on specific regionally - and firm-oriented development research. This work could be re-inforced by regionally oriented data supplied by the Bank of Canada or the Industrial Development Bank.

7. It has also become evident that there is a need for co-ordination and exchange of data and information. All Provincial and Federal bodies and institutions have a responsibility here. At the present time, the main governmental responsibility for industrial development rests with the agencies of the Provincial Government, but access to reports of Federal agencies could lend far more efficiency. In short, for any attack on the financial and related aspects of our present development problems, we must correct the lack of reliable and usefully compiled information. We have become critically aware that we can say far too little with respect to the exact dimensions of our problems although we are fully cognizant of their general nature and seriousness.

CHAPTER VIII - RESEARCH, INFORMATION AND BUSINESS PATTERN [illegible]

1. If capital funds are to be employed most effectively [illegible] promote growth of specific enterprises and the sound development of the regional economy, we must first overcome a general lack of regionally focussed economic, marketing and organizational research.

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3. [illegible] technical research and [illegible] product and technical research and [illegible] needs for small-scale business. [illegible] become so critical, accurate [illegible] new enterprise. If small business is to be successful [illegible] research and advisory [illegible] financing measures do not at present [illegible].

4. Traditionally, the financial and investment [illegible] passive in respect to [illegible] For example, almost all the commercial banks and the Industrial Development Bank [illegible] departments, in every case these are located in centres [illegible] offices of the particular institutions. Most of the research done [illegible] very general and is focussed on the central region. [illegible] the public. Many commercial banks and related [illegible] business development officers, but for the most part these officials work in the [illegible] field.

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8. There is a lack of understanding generally as to the value and meaning of such information as may now be available. We would hope that as new data were acquired that these would be made widely known so that all interested bodies could act upon the sound foundation of accurate and mutually held knowledge. Finally, we suggest that there is a need for greater use of special administrative and organizational techniques now applicable in conjunction with data-processing and other quantitative information handling equipment. This last is often well beyond the means of small individual economic units. We should like to see a pooling of the national and regional information resources to make available to the smaller units the basic data applicable to their own regions. This would give regional focus to the best techniques for acquiring new economic, business and administrative information and the skill based thereon.

9. Knowledge is surely the key here as in so many other areas. We cannot assume that it will automatically become available. It must be organized -- by all interested elements in the community and not merely by Government and the larger units of enterprise. We have found that the virtues of self-help are too often lost sight of. We also know that a particular difficulty for a developing economy is that there is little reserve to cover false starts. We cannot afford inefficient use of those financial, material and human resources available. Knowledge, as we see it, is the answer -- knowledge verified by research, organized for understanding, and properly disseminated for maximum effect.

10. The effective treatment of our various economic and financial problems will not come easily. It will require the utmost in co-operative effort not only between governments but between the public and private sectors as well. We have suggested on other occasions the establishment of a National Economic Advisory Council on a joint Federal-Provincial basis. As we see it, the prime function of such a body would be to establish immediately a national committee on a continuing basis with the responsibility for advising the governments of Canada on the economic problems facing them and the possible methods available for dealing with these problems. It would not be an executive body that could in any way usurp the powers of government, but rather it would make available to all governments concurrently the best advice available from all sections of the community.

11. In some such manner, the knowledge we consider essential might be circulated and used in a more intelligent manner than would otherwise be possible. A National Economic Advisory Council would well be the "middle-man" in the dissemination of information from source to those requiring information and technical knowledge beyond their immediate means. The framework of nationally focussed knowledge may well be a prerequisite to the optimum development of our financial machinery for regional growth.

CONCLUSION:

1. This completes the presentation of the Government of the Province of Manitoba. While we have encompassed a fairly broad area of concern, we have limited our approach as far as possible to the implications of banking and financial policy for that region which is our direct responsibility.

2. Although our approach has been directed to the problems of a particular area, we have in no way argued for the dilution of our national status or character. Rather, it has been with the strengthening of these in mind that we have emphasized the need for the financial means to achieve a more balanced economic development of our country.

3. In the time available, we have been able to do no more, nor, in fact, do we feel that, as a provincial jurisdiction, we should go beyond the area of our direct interests and responsibilities.

Winnipeg
April 9, 1962.

There is a lack of [illegible] at the same [illegible] information as may not be [illegible]. We would hope that [illegible] there is quite that these would be made widely known [illegible] all concerned [illegible] based on the [illegible] of [illegible] and [illegible] knowledge. Finally we [illegible] there is [illegible] a greater [illegible] of [illegible] now applicable [illegible] data [illegible] in other [illegible] legislative [illegible] handling [illegible]. This [illegible] is often [illegible] beyond the means of [illegible] economic [illegible]. We should like to [illegible] the [illegible] and [illegible] resources to make available [illegible] own [illegible] we should give [illegible] tools to [illegible] [illegible] instructive [illegible] and [illegible] them.

Knowledge is [illegible] but it will automatically [illegible] available. [illegible] elements in the community [illegible] but [illegible] [illegible]. We have found that the [illegible] [illegible] We also [illegible] that [illegible] [illegible] a [illegible] [illegible] states. We [illegible] human resources available, knowledge [illegible] verified by [illegible].

The effective treatment of [illegible] and [illegible] community [illegible]. It will require [illegible] not only [illegible] government [illegible] the public and private [illegible]. We [illegible] concerns the establishment of National [illegible] Federal-provincial [illegible]. As we see it, the prime [illegible] [illegible] involving the governments [illegible] the [illegible] possible [illegible] they [illegible] any way [illegible] available to all governments [illegible] the best [illegible].

In [illegible] and used in a more intelligent manner than [illegible] information [illegible] the [illegible] a prerequisite [illegible].

This [illegible] the present [illegible] of Manitoba. While we [illegible] in the [illegible] to our overall community.

[illegible] areas in the way [illegible] been with the [illegible] financial [illegible] a majority [illegible].

In the [illegible], we have [illegible] and [illegible] noted.

A470

A Brief to

The Royal Commission on Banking and Finance

presented by

Professor Clarence L. Barber
University of Manitoba

Summary and Conclusions

A. In Canada the existence of a fluctuating exchange rate and the presence of a large capital market just across the border gives to monetary policy a key importance. A difference in the tightness of monetary control can produce differences in interest rates and the availability of funds which may cause substantial capital inflows and these capital movements may cause significant swings in the level of the exchange rate.

B. In the period from 1958 to 1961 a significantly higher level of interest rates and a much greater overall degree of monetary restraint in Canada than in the United States caused an undesirably large volume of capital inflows. By keeping the value of the Canadian dollar at an excessively high level these capital inflows imposed literally enormous losses on the Canadian economy. The high value of our currency discouraged our export industries, made it difficult for many of our domestic industries to compete with imports and in general was a major cause of unemployment in Canada. Its cost includes not only the loss of several billions of dollars of gross national product but also a large and unnecessary addition to Canada's foreign indebtedness.

C. There is clear evidence that the major cause of the widening of interest differentials between Canada and the United States and the accompanying tightening of credit conditions in Canada was the conversion loan carried out by the government in the summer of 1958. By greatly extending the average term of the government debt held by the public this operation reduced the public's overall liquidity and thus strengthened its desire to hold additional cash. But except for a brief period in 1958 the Bank of Canada failed to provide the additional cash the public demanded and a sharp increase in Canadian interest rates followed. The whole operation casts doubt on the wisdom of trying to carry out monetary and debt management policies which diverge almost completely from those being pursued in the United States.

D. Even today interest rates in Canada are at a much higher level relative to those in the United States than can be justified on any rational economic basis. In order to restore interest rates to more reasonable levels there

A. In fact, is the existence of a [illegible] exchange rate and the [illegible] of a large capital market just across the border gives to monetary policy a [illegible]. A [illegible] in the [illegible] of [illegible] control [illegible] [illegible] differences in interest rates and the availability of funds [illegible] may cause substantial capital inflows or, when capital movements [illegible] cause significant swings in the level of [illegible].

B. In the period from 1958 to 1961 a significantly higher level of interest rates and a [illegible] greater [illegible] degree of monetary [illegible] in Canada [illegible] the United States caused an unnecessarily large volume of [illegible] [illegible]. By keeping the value of the Canadian dollar at [illegible] high level these capital inflows [illegible] [illegible] the Canadian economy. The high value of our currency [illegible] [illegible] industries, made it difficult for many of our [illegible] [illegible] [illegible] with imports and in general was a major cause of [illegible] in Canada. Its cost includes not only the loss of several billions of dollars of gross national product but also a large and unnecessary addition to Canada's foreign indebtedness.

C. There is clear evidence that the major cause of the widening of [illegible] differentials between Canada and the United States and the [illegible] tightening of credit conditions in Canada was the conversion [illegible] by the government in the summer of 1958. By [illegible] the average [illegible] of the government debt held by the public [illegible] reduced the public's overall liquidity [illegible] to hold additional cash. [illegible] except for a brief period in [illegible] of Canada refused to provide the additional cash [illegible] [illegible] in Canadian interest rates followed. [illegible] case [illegible] doubt on the wisdom of [illegible] [illegible] monetary policies which [illegible] much [illegible] [illegible] [illegible] in the United States.

D. Even today interest rates in Canada are at a [illegible] higher [illegible] [illegible] in the United States [illegible] justified [illegible] [illegible] [illegible] to restore interest [illegible]

may be need for the Bank of Canada to act boldly and with ingenuity. If the Bank of Canada adopted a policy of being prepared to buy and sell bonds at some modest differential over the price of equivalent U.S. maturities it could soon bring down the level of interest rates in Canada. Moreover, such a policy might prove valuable as a method of avoiding in the future the large harmful capital inflows which Canada has experienced in recent years.

E. There is also very clear evidence that Canada has been "living beyond her means" in recent years in the sense that she has been, indirectly, borrowing from other countries the funds required to finance the government's deficit. For during the past four years Canadian savings have been large enough to finance all but a very small part of Canada's capital investment. Indeed, if the Canadian people had been willing to tolerate government surpluses of the scale that were in effect from 1947 to 1952 Canada could have financed her entire post-war capital expenditure program without any net inflow of capital whatever.

F. There have recently been suggestions that Canada should return to a fixed exchange rate. In evaluating this proposal it should be recognized that if a fixed exchange rate had been in effect during the capital spending boom from 1955 to 1957 it is very likely that a much greater amount of inflation would have occurred and Canada would have found herself when the boom was over with a seriously overvalued exchange rate and a need to seek the consent of the International Monetary Fund for a devaluation. Such a result could have been avoided only by a much more restrictive fiscal policy and the use of a variety of controls to keep capital expenditure from becoming excessive. However, if the government had been prepared to limit capital expenditures by a combination of tax and other methods it could have prevented the serious distortions to the Canadian economy which developed during this period.

G. In my own view it would be desirable to retain some of the advantages of a flexible exchange rate but not rely on it to the extent we have done in the past. A compromise proposal would be for Canada to propose a fixed rate with the International Monetary Fund with the condition that our rate be free to vary within a certain range on either side of it.

may b[e] [illegible] for the Bank of Canada to act boldly and with strength. If the Bank of Canada adopted a policy of being prepared to buy and sell bonds at some modest differential over [illegible] rate [illegible]. The securities it could soon bring down the level of interest rates in Canada. Moreover, such a policy might prove valuable as a method of avoiding in the future the large harmful capital inflows which Canada has experienced in recent years.

8. There is also very [illegible] evidence that Canada has been having any [illegible] in recent years in the sense that she has [illegible] borrowing from other countries the funds required to finance the government's deficits. For during the past four years Canadian savings have been large enough to finance all but a very small part of Canada's capital investments. Indeed, if the Canadian people had been willing to accept government surpluses of the scale that were in effect [illegible] Canada could have financed her entire [illegible] without any net inflow of capital [illegible].

9. There have recently been suggestions that Canada should return to a fixed exchange rate. In evaluating this proposal it should be recognized that if a fixed exchange rate had been in effect through the capital investment boom from 1955 to 1957 it is very likely that a much greater amount of inflation would have occurred and Canada would have found [illegible] been [illegible] seriously overvalued [illegible] the [illegible] of the International Monetary Fund for [illegible] devaluation. [illegible] result could have been avoided only [illegible] and the use of a variety of controls to keep capital [illegible] becoming excessive. However, if the government had been prepared to [illegible] capital expenditures by a combination of [illegible] have prevented the serious [illegible] developed during those periods.

10. In my own view [illegible] of a flexible exchange [illegible] in the past, [illegible] would be far [illegible] with the alternative [illegible] rate [illegible]

H. It is abundantly clear that monetary policy, exchange rate policy, fiscal policy and debt management policy are extremely closely related in Canada. Thus, it is essential to successful policy making that there be mutual trust and confidence between the government and the Governor of the Bank of Canada. It is clear that such mutual trust and confidence no longer existed by June of 1961 and the Governor of the Bank should have resigned.

I. To prevent the recurrence of difficulties between the Bank of Canada and the government the Commission should give consideration to recommending the following changes:

(a) reducing the term of the Governor of the Bank of Canada from 5 to 7 years

(b) making it possible for the government, in case of disagreement, to give specific directives to the Bank.

(c) requiring that at least three members of the Board of Directors of the Bank of Canada should be professionally trained economists

(d) requiring all senior staff members of the Bank of Canada to take a sabbatical year periodically in order to keep them abreast of the latest developments in economic theory

(e) the establishment of National Economic Advisory Council.

J. In order to strengthen competition among our financial institutions the Chartered Banks should be required to divest themselves completely of any interest they now hold in our major trust companies, and the Combines Investigation Act should be amended to make it apply to financial and other services.

K. In order to reduce the extent to which our chartered banks, insurance companies and other major financial institutions restrict the flow of funds into equity and risk-taking channels the Commission should investigate carefully methods of encouraging these institutions to invest a larger part of their funds in equities and in particular of providing equity type funds to small scale enterprises and to firms in smaller communities.

1. The structure of the Canadian economy and the existence of a fluctuating exchange rate gives to monetary policy a crucial role in our economy. Its role in Canada is much more important than it is in countries such as the United States and the United Kingdom who operate with fixed exchange rates and whose economies are less subject to the intense periodic pressures that beset the Canadian economy.

2. The crucial role of monetary policy in Canada is evident from our experience during the last decade and particularly in the period since 1955. In this period Canada has experienced an investment boom centering around the development of a number of primary resources for export to foreign markets but also supported by the rapid growth of the domestic market. The size of the investment program which developed in this period exceeded the private savings of Canadians so that in the absence of government savings in sufficient volume it had to be financed partially from foreign sources. This meant that the Canadian economy had to undergo what is called in economic parlance a mechanism of adjustment. The inflow of funds had to be matched by an inflow of goods and services and the Canadian economy had to adjust to this change.

3. Canada's flexible exchange rate made it possible for her to achieve this adjustment with remarkable smoothness. This was particularly evident in the period from 1954 to 1957 when business capital expenditures increased rapidly from 18.6 percent of gross national product in 1954 to 24.8 percent in 1956 (see Table 1). In this period a moderately restrictive monetary policy was in effect and the money supply (defined as total deposits and currency excluding personal savings deposits) which had increased substantially during 1955 declined slightly in both 1956 and 1957. Under the impact of the sharp rise in investment expenditures and faced with a restrictive monetary policy in Canada some of the business firms and individuals who wished to carry out capital expenditures found themselves forced to borrow in the United States or in other foreign capital markets to obtain part of the funds they required. Some of these funds may have been spent directly on foreign machinery and equipment. But a large part of the funds were converted into Canadian dollars for expenditure in Canada. This greatly increased the demand for Canadian dollars in the foreign exchange market and helped to raise the value of the Canadian dollar from about par with the

1. The structure of the Canadian economy and the role of [illegible] exchange rate gives to monetary policy a crucial role [illegible] economic [illegible] in Canada is much more important than [illegible] countries such as the United [illegible] and the United Kingdom who [illegible] and whose economies are less subject to [illegible] that beset the Canadian economy.

2. The crucial role of monetary policy [illegible] is evident from our experience during the last [illegible] the period since 1950. [illegible] Canada [illegible] the development of a number of primary resources for export [illegible] but also supported by the rapid growth of [illegible]. [illegible] of the investment program [illegible] private savings of Canadians [illegible] in sufficient volume [illegible]. This [illegible] economy [illegible] a measure of [illegible] each [illegible] adjust to this concern.

3. Canada's [illegible]

In the period from 1950 [illegible] rapidly from 18.4 percent of [illegible] in 1956 (see Table 1). [illegible] policy was in effect and [illegible] current [illegible] totally [illegible] of the sharp rise in [illegible] monetary policy in Canada [illegible] wished to carry out [illegible] in the [illegible] the funds they required. Some of [illegible] on foreign [illegible] converted into Canadian dollars for [illegible] increased [illegible] helped to raise the value of the Canadian dollar [illegible]

TABLE 1

The Ratio of Capital Formation and the Current Account Deficit to Gross National Product, Canada, 1949 to 1960

	Business Gross Fixed Capital Formation	Total Business Capital Formation	Current Account Deficit	Total Business Cap. Form. plus C.A. Deficit.
	(Percent of Gross National Product)			
1949	18.6	18.9	+ 1.0	19.9
1950	18.6	21.7	- 1.8	19.9
1951	18.7	23.1	- 2.5	20.6
1952	18.5	20.7	+ .7	21.4
1953	20.0	22.3	- 1.8	20.5
1954	19.2	18.6	- 1.7	16.9
1955	19.2	20.3	- 2.5	17.8
1956	22.2	24.8	- 4.4	20.4
1957	23.0	23.7	- 4.4	19.3
1958	21.4	19.8	- 3.2	16.6
1959	19.1	20.6	- 4.1	16.5
1960	18.4	19.8	- 3.3	16.5

Source: Dominion Bureau of Statistics, National Accounts; Income and Expenditure, 1926 to 1956 and 1960.

United States dollar in late 1955 to a premium of about 6 percent in the autumn of 1957. The rise in the value of the Canadian dollar in turn encouraged a large inflow of imports, discouraged or handicapped our export industries and thus helped produce the large deficit in our balance of payments needed to convert the inflow of money capital into an equivalent inflow of goods and services.

4. However, in late 1957, the capital expenditure boom which had been carried to rather extraordinary levels by the chance combination of a number of extremely large projects such as the Trans-Canada gas pipeline, the St. Lawrence Seaway, the oil boom in the west following Suez and the uranium contracts, began to slacken. In these circumstances it would have been in the interests of the Canadian economy to have had the adjustment mechanism work in reverse. If the capital inflows had declined and this had been accompanied by a decline in the value of the Canadian dollar, which in turn might well have produced a reduction in our imports of goods and services and an increase in our exports, the Canadian economy would have avoided a great many undesirable consequences. Not only would

The Ratio of [illegible]

Canada, [illegible]

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	(Per cent of [illegible])			
1949	15.0	[illegible]	[illegible]	[illegible]
1950	18.[illegible]	[illegible]	[illegible]	[illegible]
1951	18.[illegible]	[illegible]	[illegible]	[illegible]
1952	18.5	20.[illegible]	[illegible]	[illegible]
1953	[illegible]	[illegible]	[illegible]	[illegible]
1954	[illegible]	[illegible]	[illegible]	[illegible]
1955	19.2	[illegible]	[illegible]	[illegible]
1956	[illegible]	[illegible]	[illegible]	[illegible]
1957	23.0	23.[illegible]	[illegible]	[illegible]
1958	21.[illegible]	[illegible]	[illegible]	[illegible]
1959	19.[illegible]	20.6	[illegible]	[illegible]
1960	18.[illegible]	[illegible]	[illegible]	[illegible]

Source: Dominion Bureau of Statistics, [illegible] 1926 to 1960.

[illegible] of [illegible]. The [illegible] in the [illegible]

encouraged [illegible]

[illegible]

[illegible]

[illegible]

the level of unemployment have been lower, but the rate of economic growth would have been higher, a largely unnecessary addition to our foreign indebtedness would have been avoided and the deficit incurred by the federal government might have been much lower.

5. In my view, the economic policy that was followed by the Canadian government during the period from late 1957 until the budget last June was unbelievably bad. This was not in any sense deliberate. It simply stemmed from a failure to recognize the underlying situation that faced the Canadian economy and a failure to take the steps needed to solve the problems it posed. Indeed, the policy pursued made matters worse rather than better. In large measure the economic policy followed during this period was one which combined a tight or restrictive monetary policy characterized by high interest rates with a loose fiscal policy which featured substantial government deficits. What was needed was a policy of monetary ease designed to reduce interest rates, discourage the capital inflow and reduce the value of the Canadian dollar. Such a policy would have helped divert expenditures in Canada from foreign to domestic producers and this together with the stimulation given to our export industries would have produced a much higher level of employment. At higher levels of employment, government tax yields would have been much larger and the size of the federal deficit smaller. Indeed, if the policy had been applied vigorously the federal deficit might have been eliminated entirely. Moreover, an entirely unnecessary addition to our external debt would have been avoided. And, the alternative combination of an easier monetary policy combined with a tighter fiscal policy would not have been any more inflationary than the policy followed.

6. It is clear that the cost of Canada's failure to pursue the proper economic policy has been extremely high. An addition to our gross national product amounting to several billion dollars has been lost forever. Perhaps even more serious, the Canadian economy has been saddled unnecessarily with an addition to our foreign indebtedness which also runs to several billion dollars.

7. Clear evidence of the unsuitable nature of the economic policy in effect during this period is provided by the differential in interest rates between Canada and the United States (see Table 2). At a time when Canada's requirement for foreign funds was declining the differential between the

TABLE 2.

Interest Differentials on Government Securities,
Canada and the United States, Selected Issues, 1955-1961.

		Cdn. $2\frac{3}{4}$ '67-68 U.S. $2\frac{1}{2}$ '63-68	Cdn. $3\frac{1}{4}$ '79 U.S. $3\frac{1}{4}$ '78-83	Cdn. $3\frac{3}{4}$ '96-98 U.S. 3 '95
1955	1	.22	.38	
	2	.11	.30	
	3	.11	.27	
	4	.43	.41	
1956	1	.44	.43	
	2	.49	.46	
	3	.50	.47	
	4	.59	.54	.68
1957	1	.78	.72	.70
	2	.87	.62	.67
	3	.88	.64	.70
	4	.56	.52	.62
1958	1	.76	.62	.79
	2	.69	.68	.93
	3	.28	.46	.84
	4	.48	.56	.95
1959	1	.73	.64	1.05
	2	.69	.79	.98
	3	.48	1.00	1.05
	4	.63	1.08	1.05
1960	1	.82	1.06	1.30
	2	.58	.94	1.36
	3	.72	.97	1.15
	4	.78	1.17	1.30
1961	1	.93	1.29	1.50
	2	.93	1.28	1.41
	3	.44	.92	1.21
	4	.24	.82	1.19

Data are averages of weekly yields. All differentials show rates or yields in Canada above those in the United States.

Source: Statistical Summary: Bank of Canada.

yield on long term government of Canada bonds and the yield on comparable U.S. government securities actually widened. For example, the differential between the Canadian issue of $3\frac{1}{4}$'s dated Oct. 1, 1979 and the U.S. issue of $3\frac{1}{4}$'s dated January 1978-83 which had been only .4 percent in 1956 and .63 in 1957 was close to or above 1 percent from the middle of 1959 until late in 1961. Even in December 1961 the differential was still .8, almost twice the differential that existed in 1956 when the capital boom was near its peak. This extraordinary and wholly unwarranted interest differential was undoubtedly an important factor in encouraging an inflow of capital funds

well in excess of the needs of the Canadian economy. Indeed, there can be little doubt that capital inflows in the period after 1957 imposed enormous losses on the Canadian economy. By keeping the value of the Canadian dollar at an undesirably high level they handicapped our export industries and imposed upon our domestic manufacturers a wholly undesirable and unnecessary amount of import competition, a competition which because of its duration and severity may well have imposed lasting harm on some of our industries.

8. At one time I took the view that this widening of interest differentials reflected the fact that monetary policy in Canada was relatively tighter than it was in the United States. However, further study has convinced me that the primary and perhaps the sole cause of this widening of interest differentials was the conversion loan carried out by the government in the summer of 1958. The evidence that supports this view is given in Charts 1, 2, 3, and 4. The date on which these charts are based are given in the appendix to this brief in Tables A1 and A2.

9. Thus the data in Chart 1 shows the relation between interest rates and the ratio of money supply (bank deposits and currency in the hands of the public) to gross national product. Chart 2 shows a similar ratio for a money supply concept which excludes personal savings deposits. It is evident from these charts that the lower the ratio of money supply to gross national product the higher the level of interest rates. But it is also evident that there was a sharp change in the underlying relationship between these two variables in the interval from the second to the fourth quarter of 1958. This was, of course, the period during which the conversion loan was carried out. It seems clear that one of the important effects of the conversion loan was to increase substantially the public's demand for cash. Individuals and financial institutions who were induced to exchange short term securities for the much longer term and less liquid conversion loan bonds would naturally want to hold more cash in their portfolio to prevent a serious decline in their liquidity position. This need not have resulted in a serious rise in interest rates had the Bank of Canada been willing to allow a substantial increase in the money supply. But except for a short period during and immediately after the loan the Bank of Canada was not willing to provide the basis for such an increase. By the third quarter of 1959 the ratio of money supply to gross national product was back near

well in excess of the [illegible] of the [illegible] accounts. [illegible] little doubt that [illegible] in the period after [illegible] losses on the Canadian economy. By [illegible] the value of the [illegible] at an undesirably [illegible] imposed upon our domestic manufacturers a [illegible] amount of import competition, [illegible] and severity [illegible]

8. At one time I took the view that this [illegible] rate reflected the fact that [illegible] higher than it was in the United States. However, [illegible] convinced me that the [illegible] of interest differentials was [illegible] government in the summer of [illegible]. The [illegible] given in Charts 1, 2, 3, and 4. The data [illegible] based are given in the appendix to this [illegible]

9. Thus the data in Chart 1 shows [illegible] and the ratio of [illegible] the public to [illegible] national product. [illegible] money supply [illegible] from these charts [illegible] national product [illegible] except that there was a [illegible] in the [illegible] [illegible] conversion [illegible] individuals and [illegible] term security. [illegible] ones which [illegible] a serious [illegible] to a serious [illegible] allowed [illegible] 1959 [illegible]

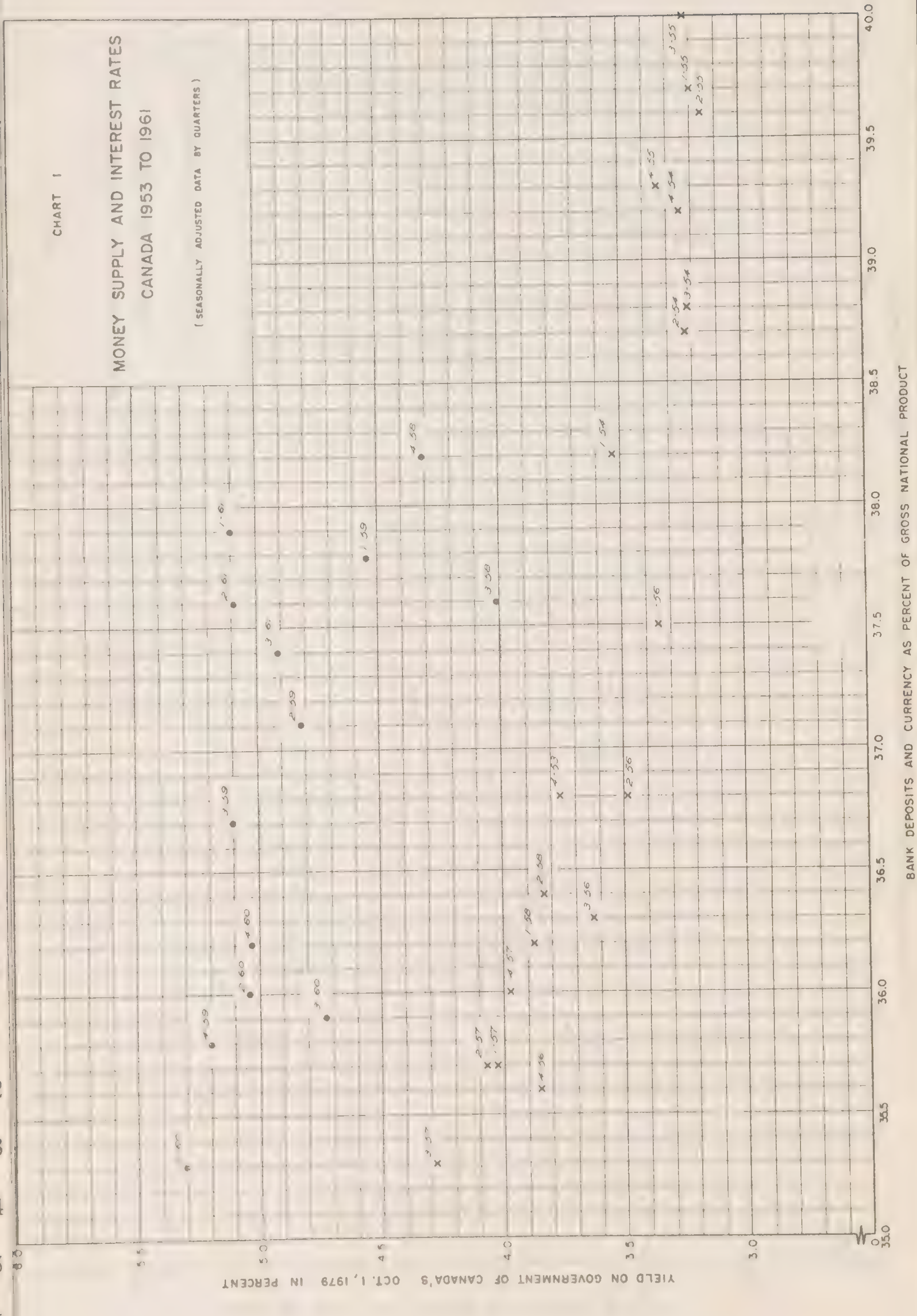
CHART I
MONEY SUPPLY AND INTEREST RATES
CANADA 1953 TO 1961
(SEASONALLY ADJUSTED DATA BY QUARTERS)
BANK DEPOSITS AND CURRENCY AS PERCENT OF GROSS NATIONAL PRODUCT
YIELD ON GOVERNMENT OF CANADA'S OCT. 1, 1979 IN PERCENT

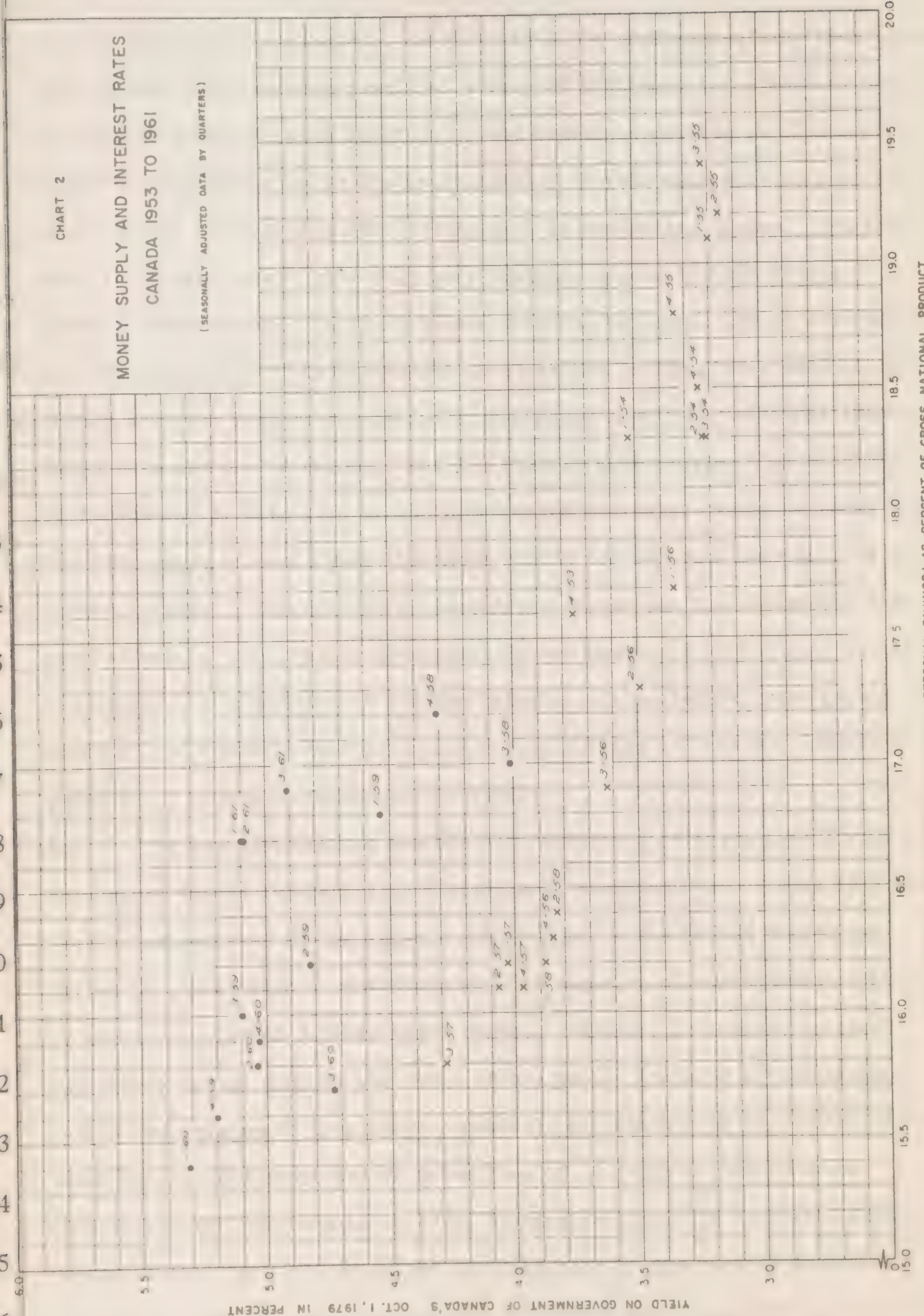
CHART 2
MONEY SUPPLY AND INTEREST RATES
CANADA 1953 TO 1961
(SEASONALLY ADJUSTED DATA BY QUARTERS)
BANK DEPOSITS AND CURRENCY (EXCLUDING PERSONAL SAVINGS) AS PERCENT OF GROSS NATIONAL PRODUCT
YIELD ON GOVERNMENT OF CANADA'S OCT. 1, 1979 IN PERCENT

the ratio in effect before the conversion was carried out and interest rates were more than one percentage point higher.

10. It has sometimes been suggested that the rise in interest rates during this period reflected a shift in investor preferences away from bonds and towards equities as a result of a fear of continued inflation and that the higher interest rates in effect today contain a premium to offset an expected long term rise in the price level. If this view were correct one would expect to find a similar development in the United States. Yet the data in Charts 3 and 4 give only very limited support to this thesis. There is some evidence in Chart 4 that from the third quarter of 1958 until the fourth quarter of 1959 interest rates in the United States were slightly higher than the past relationship between money supply and national income would have led one to expect. But the rise is much smaller than occurred in Canada and by late 1960 it had disappeared entirely. Thus, it seems clear from the above evidence that the major reason for the much sharper rise in interest rates in Canada than in the United States was the conversion loan carried out by the Canadian government in the summer of 1958. As a result of the conversion operation the average maturity of the federal debt in the hands of the Canadian public increased from 8 years on June 30, 1958 to 14 years and 9 months on September 30, 1958.

11. The contrast between the maturity structure of the national debt in the United States and Canada is particularly striking. As of June 1961 the average maturity of the marketable public debt in the United States had fallen to 4 years and 4 months whereas the maturity of the Canadian debt at the same date was 9 years and 6 months. Further, in respect to the marketable public debt in the hands of the public (outside of the banking system and government investment accounts), in Canada some 53 percent of the total amount held consisted of maturities of 10 years or over whereas only 39 percent was in maturities of 5 years or less. In contrast, in the United States, only 17 percent of the debt held by the general public was in maturities of 10 years or more and 68 percent was in maturities of 5 years or less. Yet at the same time, relative to gross national product, the money supply is smaller in Canada than it is in the United States. Thus, in the third quarter of 1961 total bank deposits and currency in the hands of the public amounted to 42 percent of gross national product in the United States

the [illegible] in effect [illegible] the conversion [illegible] were [illegible] the [illegible] percentage [illegible]

[illegible] It has [illegible] been suggested that the rise [illegible] during this period reflected a shift in [illegible] away from [illegible] and towards [illegible] as a result of a [illegible] the [illegible] interest [illegible] the effect [illegible] and long term rise in the price level. [illegible] could [illegible] the [illegible] 3 and 4 [illegible] only very slight [illegible] there [illegible] in [illegible] the fourth quarter of 1956 interest rates in the [illegible] that the most [illegible] between [illegible] and [illegible] would have [illegible] But [illegible] small [illegible] occurred in [illegible] and [illegible] Thus, [illegible] the [illegible] that the [illegible] interest rates [illegible] the [illegible] compared [illegible] the [illegible] public [illegible] [illegible] 1957.

[illegible] The [illegible] the [illegible] [illegible] amount [illegible]

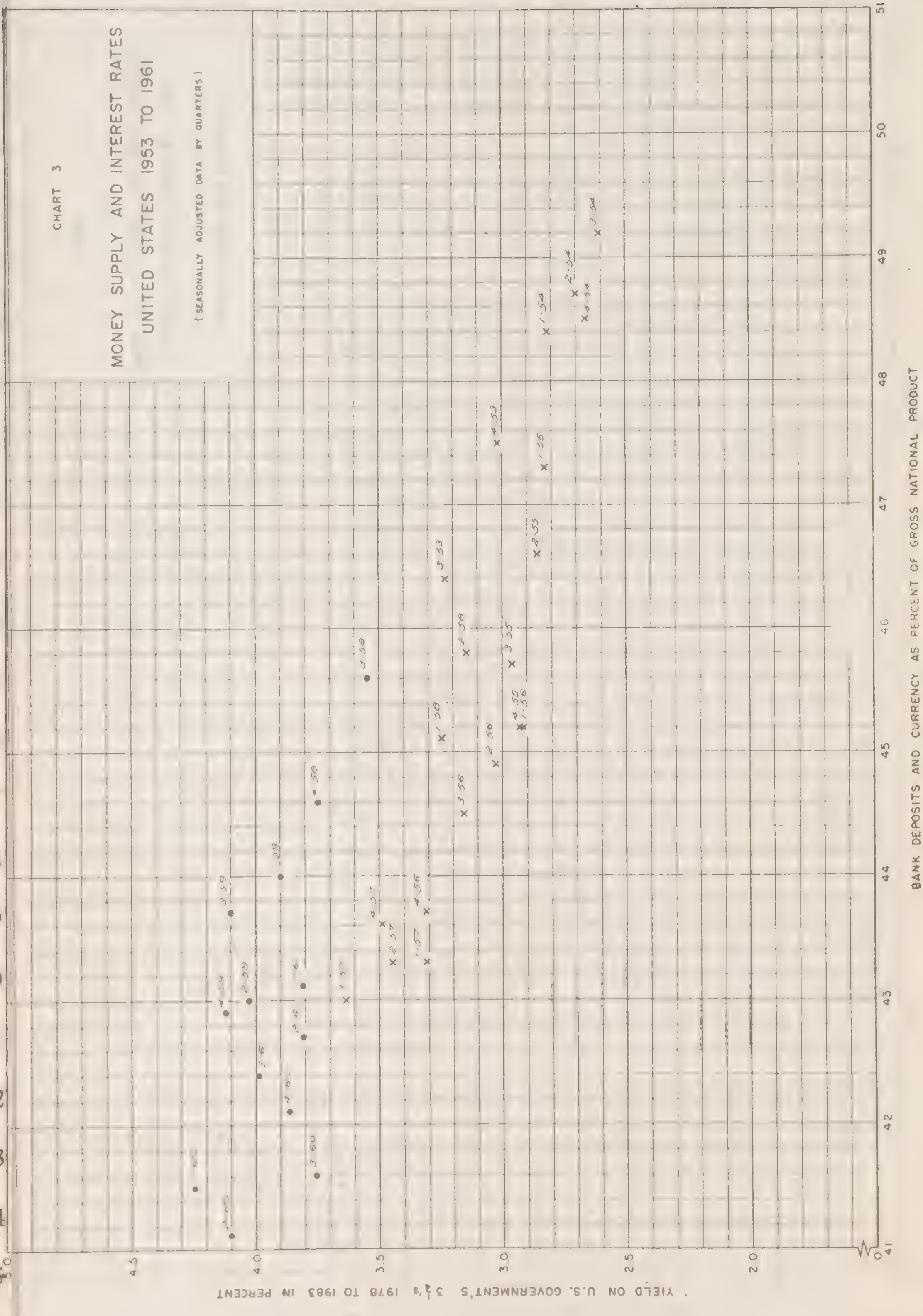
CHART 3
MONEY SUPPLY AND INTEREST RATES
UNITED STATES 1953 TO 1961
(SEASONALLY ADJUSTED DATA BY QUARTERS)
BANK DEPOSITS AND CURRENCY AS PERCENT OF GROSS NATIONAL PRODUCT
YIELD ON U.S. GOVERNMENT'S 3¼'s 1978 TO 1983 IN PERCENT

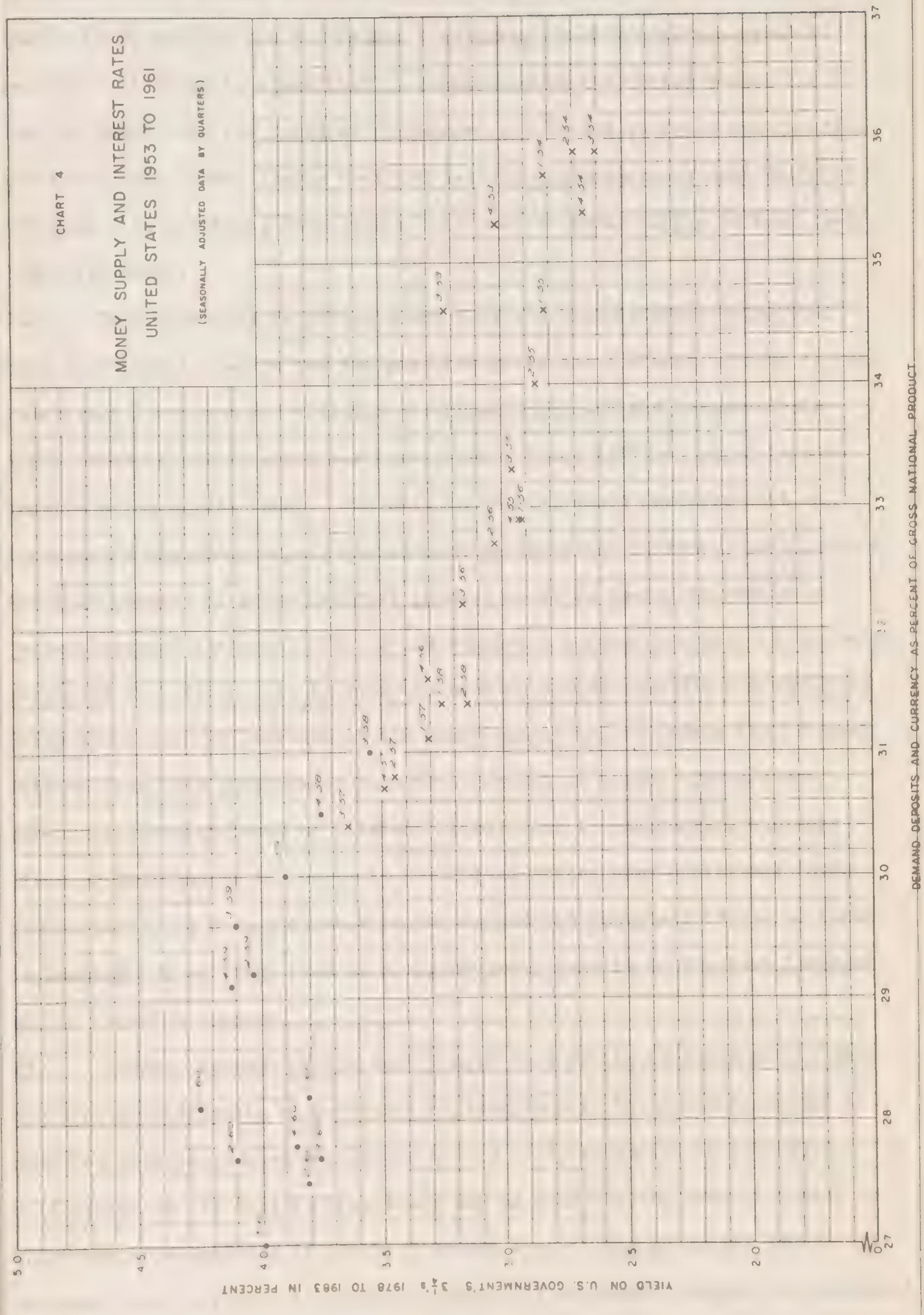
CHART 4
MONEY SUPPLY AND INTEREST RATES
UNITED STATES 1953 TO 1961
(SEASONALLY ADJUSTED DATA BY QUARTERS)
YIELD ON U.S. GOVERNMENT'S 3¼% 1978 TO 1983 IN PERCENT
DEMAND DEPOSITS AND CURRENCY AS PERCENT OF GROSS NATIONAL PRODUCT

compared with 37 percent in Canada. If the time deposits at mutual savings banks in the United States are included the ratio for that country becomes 50 percent. For demand deposits and currency the ratio for the United States is 27 percent and for Canada (including other notice deposits) 17 percent. It is quite clear that as compared with the United States the Bank of Canada and the Canadian government are trying to force the Canadian public to hold a much longer term and less liquid government debt while at the same time providing them with a much smaller money supply to meet their liquidity needs.

12. Thus there can be little doubt that the high interest rates that have prevailed in Canada for the past few years are a direct outcome of the relatively long term and illiquid government debt and the comparatively tight monetary policy which has been pursued since 1957 and which in some measure still exists today. The data in Chart 1 would indicate that an increase in the money supply (total bank deposits and currency) to a level of about 40 percent of gross national product would be needed to restore a 4 percent rate of interest. This would require a further increase in the money supply of $1 billion. In my view the Bank of Canada should act promptly to bring about such an increase in the money supply and to reduce the interest rate on long term government bonds to 4 percent or lower. The present comparatively high level of interest rates is still encouraging business firms or governments to borrow in the United States when additional funds could readily be made available in Canada and the resultant inflow of funds is keeping the exchange rate at a higher level than is in the best interest of the Canadian economy.

13. Indeed, because of the much longer term of the Canadian public debt, the greater difficulty of borrowing on long term in the Canadian market as compared with the United States may not be fully reflected in interest differentials. If this is true there may be need for the Bank of Canada to intervene more actively in the bond market than it has in recent years. If the Bank were to resume its former practice of announcing prices on government securities at which it was prepared to buy and sell and if it set these prices in terms of a modest differential over equivalent United States securities I feel confident that it could restore Canadian-U.S. interest differentials to a level more in keeping our current economic position. I would suggest

compared with 37 percent in Canada. [illegible]

banks in the United States are included the [illegible]

[illegible]

[illegible]

percent. It [illegible]

[illegible]

[illegible] to hold [illegible] and less liquid [illegible]

the same time [illegible]

[illegible]

12. That [illegible]

have prevailed in Canada [illegible]

relatively long term and illiquid [illegible]

tight money policy which has [illegible]

are still exists [illegible]

[illegible]

about 10 percent of a [illegible]

present rate of interest, [illegible]

supply of $2 billion. In my [illegible]

[illegible]

[illegible]

comparatively high level of interest [illegible]

flows or accretions to [illegible]

could [illegible]

is [illegible] the exchange rate [illegible] higher [illegible]

of the Canadian dollar.

13. [illegible], [illegible]

the greater difficulty of [illegible]

compared with the United States [illegible]

different [illegible]. If this is true [illegible]

intervene more actively in the [illegible]

the Bank were to [illegible] its former [illegible]

conditions in which it was prepared to [illegible]

prices in terms of [illegible]

I feel confident that it could [illegible]

to a [illegible] more [illegible] current economic [illegible]

that the Commission investigate this possibility thoroughly. If the Bank of Canada is going to exert prompt and effective control over the level of the exchange rate and the volume of capital inflows it must be able to exercise much more sensitive control over Canadian-U.S. interest differentials than it appears to have at present.

14. The seriousness of the present position of the Canadian economy are underlined by the data given in Table 3. These data show in summary fashion and relative to national income the size of net capital formation in the Canadian economy and the way in which it has been financed during various

TABLE 3

Net Capital Inflow, Government surplus or deficit and Net private savings in Relation to Net Capital Formation, Canada, 1947 to 1961.

	Net capital Formation	Net Capital Inflow (-) or Outflow (/)	Net Capital Formation financed by Canadians (1) - (2)	Gov't surplus (/) or deficit (-)	Net Private Savings of Canadians (3) - (4)
	(1)	(2)	(3)	(4)	(5)
		(percent of National Income)			
1947	12.2	.2	12.4	7.3	5.1
1948	10.7	3.5	14.2	5.9	8.3
1949	10.9	1.3	12.2	2.9	9.3
1950	14.0	-2.3	11.7	4.1	7.6
1951	16.1	-3.2	12.9	5.9	7.0
1952	13.6	.9	14.5	1.4	13.1
1953	15.1	-2.3	12.8	.9	11.9
1954	9.2	-2.2	6.9	-.7	7.6
1955	10.9	-3.3	7.6	.5	7.1
1956	18.2	-5.8	12.4	1.5	10.9
1957	14.8	-5.9	8.9	.4	8.5
1958	10.9	-4.4	6.5	-4.1	10.5
1959	11.4	-5.4	6.0	-2.0	8.0
1960	9.6	-4.3	5.3	-3.0	8.3
1961#	6.4	-3.5	2.9	-4.3	7.2
1947-52	12.9	.1	13.0	4.6	8.4
1953-57	13.6	-3.9	9.7	.5	9.2
1958-61	9.5	-4.2	5.2	-3.3	8.5

First three quarters only.

Source: National Accounts: Income and Expenditure, 1960 and Third Quarter, 1961, Dominion Bureau of Statistics, Ottawa.

stages of the postwar period.[1] I would like to direct the attention of the Commission especially to Column 3 in this table, which shows the ratio of net capital formation financed out of Canadian savings to national income. It is evident that there has been a striking and marked decline in this ratio. On the average over the period 1947 to 1952 Canadian savings amounted to 13.0 percent of our national income and this was sufficient to finance our entire net capital formation with a small margin to spare. In contrast, over the past four years, 1958 to 1961, net Canadian savings have amounted to only 5.2 percent of our national income and this has been sufficient to finance little more than half of Canada's net capital formation, the balance being financed by an inflow of foreign funds. Moreover, by 1961 net capital formation in Canada had fallen to 6.4 percent of our national income, the lowest level of any postwar year and net capital formation financed out of Canadian savings had fallen to less than 3 percent of our national income, a ratio which is not uncommon among very poor countries but which is inexcusable in a wealthy nation like Canada.

15. Reference to columns 4 and 5 in Table 3 makes it clear that this sharp decline in the extent to which net capital formation in Canada has been financed out of Canadian savings does not reflect any decline in the willingness on the part of Canadians to save but reflects rather the sharp shift in government budgets from the surpluses amounting to 4.6 percent of national income enjoyed in the period from 1947 to 1952 to the average deficit of 3.3 percent for the period from 1958 to 1961. Indeed, private savings of Canadians as a percent of national income were slightly higher in the latter period than they were in the former. It is clear that the shift in government budgets from a surplus to a deficit position has been at the cost of a very large rise in our foreign debt. In fact, had Canadians been willing to finance government surpluses on the scale of the 1947-52 period Canada could have financed her entire post-war capital expenditure program without any net inflow of capital funds whatever. In an indirect sense the government deficits of recent years have been financed by borrowing from other countries. For throughout the past four years private Canadian savings have been large

[1] National income would appear to be the proper base against which net capital formation should be measured, since it excludes both indirect taxes and capital consumption allowances. Net capital formation excludes the latter and carries a relatively light burden of indirect taxes.

stage of the [illegible] of the

commission [illegible] [illegible] fairly [illegible]

[illegible] capital formation [illegible] Canadian savings [illegible]

It is evident that [illegible] in this

[illegible]

[illegible] 12.0 per cent [illegible]

our [illegible] capital formation [illegible]

[illegible]

to only [illegible] per cent [illegible] has been [illegible]

[illegible] more than [illegible] not [illegible]

[illegible] of foreign [illegible]

capital formation [illegible]

[illegible] lower [illegible] than [illegible]

of Canadian savings [illegible]

[illegible] which is not [illegible]

[illegible]

(i.19) [illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

enough to finance all but a very small portion of the capital investment carried out in Canada. I wonder how many Canadians would support the increased welfare expenditures that are currently being promised by all political parties if they realized that, effectively, they are being financed by borrowing from the United States and other countries. In this special sense I think Mr. Coyne was quite correct in his contention that Canadians are living beyond their means.

16. It is, of course, difficult to distinguish cause and effect here. In one sense the shift to government deficits were caused by a failure of the capital inflows to decline sharply after 1957 when they were no longer needed on such a substantial scale. Had the capital inflows and the size of the accompanying current account deficit declined sharply the government would have been under less pressure to increase welfare expenditures and reduce taxes and the deficits would have been much smaller. But irrespective of the cause the result is the same. For the past 4 to 5 years Canadians have been borrowing abroad at a time when there has been no genuine need for such borrowing.

17. In some quarters the argument has been advanced that high interest rates in Canada today are necessary to attract an adequate volume of foreign capital and to encourage a high level of Canadian savings. This is a wholly erroneous view. As I have already explained much of Canada's current difficulty can be traced to an excessive volume of capital inflows and until such time as these capital inflows have been reduced to a level where they can be absorbed without causing undue harm to the Canadian economy we need lower interest rates to discourage them, not high interest rates to maintain them. Further, the data in column 5 of Table 3 above show that private savings were as high or higher in proportion to national income before 1958 when interest rates were much lower than they have been since in a period of relatively high interest rates. Finally, in view of the unemployment that exists in Canada today it must be emphasized that short term interest rates are much too high. Writing in the 1930's the famous English economist, Keynes, expressed the view that "Interest today rewards no genuine sacrifice any more than does the rent of land".[2] By this he meant that in circumstances where potential income

[2] The General Theory of Employment Interest and Money, p. 376.

[illegible] finance all but a very small portion of [illegible] capital [illegible] [illegible] in [illegible]. I wonder how many [illegible] would support the [illegible] [illegible] expenditures that are currently being [illegible] if they realized that, effectively, they are being financed by borrowing from the United States and other countries. In this [illegible] [illegible] correct in his contention that [illegible] are living beyond [illegible].

16. It is, of course, difficult to distinguish cause and effect here. If one sees the shift to government deficits [illegible] [illegible] capital inflows to decline sharply after [illegible] [illegible] on such a substantial scale. But the capital inflow and the external current account deficit [illegible] [illegible] the government [illegible] have been under [illegible] [illegible] taxes and [illegible] [illegible] have been [illegible]. But irrespective of the cause the result [illegible] [illegible] [illegible] been borrowing abroad at a time when there [illegible] [illegible] need [illegible] such borrowing.

17. In some countries the government has been [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] capital [illegible] [illegible] [illegible] [illegible] [illegible] previous years. As I have already explained [illegible] [illegible] current [illegible] can be blamed for an excessive volume of capital inflows [illegible] [illegible] these [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] the data [illegible] [illegible] of Table [illegible] today it must be [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]

The [illegible] [illegible] [illegible] [illegible]

and savings are not being realized because of unemployment there is no reason for paying a reward to the person who provides funds. I would interpret this to mean that in current circumstances there is no genuine reason for a treasury bill rate of more than a nominal amount.

18. In view of the difficulties which Canada has experienced recently with an overvalued exchange rate, this Commission may wish to consider the advisability of returning to a fixed exchange rate. In assessing the merits of this proposal it would be useful to consider what might have happened to the Canadian economy if a fixed exchange rate, fixed at say par with the U.S. dollar, had been in effect during the capital investment boom of 1955-57. For it is quite possible that Canada will experience booms of this kind again in the future. In such circumstances, with a comparatively tight monetary policy in effect, the same shift, as actually occurred, to foreign sources for funds to help finance the capital expenditures would have taken place. However, with a fixed rate in effect the Canadian government would have been faced with a rather formidable task in finding sufficient Canadian dollars to finance this capital inflow. If the government had attempted to raise these funds in an non-inflationary manner by issuing additional securities and thus placing further pressure on the Canadian capital market there would undoubtedly have been a much sharper rise in Canadian interest rates. While this rise in interest rates might have caused a curtailment in some investment expenditures it would also have accentuated the inflow of funds by making borrowing in the New York market more attractive. Faced with this situation the government might have been forced to allow a substantial rise in the money supply so that the inflow of funds could be financed without forcing a widening of interest differentials. Otherwise, the greater the effort the government made to finance the inflow by borrowing in a non-inflationary manner in Canada the larger the inflow would become. In the end such a policy would be self-defeating.

19. If the government financed the inflow by allowing an increase in the money supply there would have been much greater inflationary pressure on the Canadian economy than actually occurred. A rise in Canadian prices and incomes relative to incomes and prices in the United States under a fixed exchange rate would have had effects similar to an appreciation in the Canadian dollar with constant relative prices and incomes. It would have impaired the competitive power of Canada's export and import-competing industries and

and [illegible] are not being [illegible] and [illegible] for paying [illegible] to the person [illegible] I would [illegible] to mean that in [illegible] circumstances [illegible] for a [illegible] bill [illegible] more than a [illegible] small [illegible]

18. In [illegible] difficulties which Canada has [illegible]

[illegible]

[illegible] of [illegible] on a fixed [illegible] In [illegible] of this proposal it would be useful to [illegible] the Canadian economy if a fixed exchange [illegible] dollar, had been [illegible] for it is quite possible that Canada will [illegible]

[illegible]; in effect, the same [illegible], as [illegible] funds to help finance the [illegible] with a fixed rate in effect the Canadian [illegible] rather [illegible] task in [illegible] this capital inflow. If the government had attempted to [illegible] in an accumulating [illegible] would [illegible] have been [illegible] interest [illegible] might have caused [illegible] it would [illegible] New York market [illegible] might have been forced to allow [illegible] the inflow of funds [illegible] of [illegible] Otherwise, the [illegible] inflow by borrowing [illegible] [illegible] would [illegible]

17. If the government [illegible] the money supply [illegible] the Canadian economy [illegible] incomes relative to incomes [illegible] exchange rate would [illegible] dollar with constant [illegible] [illegible]

thus helped induce the current account deficit and the diversion of resources towards domestic investment projects that actually occurred. However, if such an inflationary process had been allowed to develop it might well have precipitated a wage-price spiral which would have produced a very substantial price rise and left Canada, after the investment boom had receded, with a seriously overvalued exchange rate.

20. There are, of course, alternative policy measures that might have been used. The government could have raised tax rates sharply, reduced its expenditures and provided the funds needed to finance the capital inflow out of a budgetary surplus. This would have been an excellent solution on economic grounds but it may not have been entirely acceptable politically since the government in power in 1956 was already having difficulty explaining and defending its budget surpluses. Or the government might have taken steps to check the level of capital expenditures more directly. It is clear that the Trans-Canada gas pipeline project could easily have been deferred a year or more. And a system of deferred depreciation charges such as was put into effect on some types of investment in the early fifties would also have helped reduce capital spending. Moreover, the government could have put pressure on the United States government to extend the time limits on the uranium contracts. In retrospect, the scramble induced by these time limits appears arbitrary and unnecessary. Finally, direct controls could have been reimposed on the use of consumer credit and on the terms on which N.H.A. credit was available.

21. Thus, it seems clear that a fixed exchange rate system could be managed even in the face of a formidable capital spending boom such as occurred in 1956-57. In contrast, the difficulties occasioned by a purely speculative inflow of funds such as that which occurred in 1950 and which led to Canada's adoption of a freely fluctuating exchange rate would be much easier to handle. If the inflow of funds is not related to any plans for capital expenditure in Canada it could be financed either by selling newly issued government securities to the banking system or to the general public. If, as seems to have been true in 1950 the inflow of funds was inspired by the prospect of a capital gain from an anticipated increase in the value of the Canadian dollar it seems likely that the owners of these funds would be content to leave them on deposit in Canadian banks or to invest them in short-term government

thus helped [illegible] the current [illegible]

an [illegible] attorney [illegible] had been [illegible]

gear [illegible] a wage [illegible]

price rise and [illegible] Canada, after [illegible]

20. There are, of course, [illegible]

been used. The government could have [illegible]

expenditures and provided [illegible]

of a budgetary surplus. [illegible]

economic grounds but [illegible]

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and defending its budget [illegible]

to [illegible] the level of [illegible]

or more. And [illegible]

[illegible] on [illegible]

helped reduce [illegible]

pressure on the United States [illegible]

[illegible] continued [illegible]

[illegible] on the [illegible]

[illegible]

Thus, it [illegible]

even in the [illegible] of a [illegible]

1971 [illegible] In contrast, the [illegible]

inflow of funds [illegible]

securities to the [illegible]

have been [illegible]

capital gain from an anticipated increase [illegible]

it seems [illegible] that the owners of these [illegible]

[illegible]

securities. They might well have ended up holding the treasury bills the government issued to finance the inflow. Nevertheless, although such an inflow could be handled without an undue disturbing effect on the Canadian economy it seems clear that some degree of flexibility in the exchange rate protects the Canadian economy from destabilizing speculative capital movements and increases the independence and effectiveness of Canadian monetary policy.

22. Thus it is clear that under a fixed exchange rate system Canadian monetary policy would have a more limited degree of freedom than it has today. I have indicated above the limitations that would be imposed during a capital spending boom. In the opposite situation of unemployment and insufficient capital spending, similar limitations would arise. If the Bank of Canada attempted to pursue a monetary policy appreciably easier than the policy followed in the United States a capital outflow might develop which would rapidly deplete our reserves of gold and United States dollars. If these reserves had been built up sufficiently in a preceding boom this problem might be manageable. In this regard I think it is unfortunate that the Canadian government did not take advantage of the excessive capital inflows in recent years to build up its stock of gold and dollar reserves very substantially. Further, since fluctuations in the Canadian economy tend to follow those in the United States economy rather closely it is unlikely that the difficulties Canada would encounter in pursuing an easy money policy would be severe.

23. It has been reported recently that Canada has been under pressure to re-establish a fixed exchange rate with the International Monetary Fund. In view of the mis-understandings and suspicion that recent Canadian actions in this field have occasioned I think there would be merit in moving some distance towards this goal. What I would recommend is that the Canadian government agree to fix its exchange rate with the International Monetary Fund subject to the condition that the rate be allowed to fluctuate over a somewhat wider range around this limit than is at present allowed under the Fund's regulation. For example, if the Canadian government agreed to fix her rate at 95 cents U.S. to $1 Canadian but with the provision that the rate be free to fluctuate within the range of 92 and 98 such a step might remove some of the suspicions that now surround Canada's present exchange rate policy. Yet it would still leave sufficient freedom of movement to offset most of the undesirable effects of speculative or other undesired capital movements.

countries. They might well have ended [illegible] in necessary [illegible] [illegible] moment [illegible] the finest [illegible] [illegible] [illegible] [illegible] which could be handled [illegible] [illegible] effect on the [illegible] [illegible] seems [illegible] [illegible] [illegible] [illegible] in the [illegible] protects the [illegible] from [illegible] [illegible] [illegible] measures [illegible] [illegible] [illegible] [illegible]

22. [illegible] it is clear that [illegible] [illegible] monetary policy would [illegible] a more [illegible] [illegible] [illegible] [illegible] than it [illegible] [illegible] have [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] expanding [illegible]. In the [illegible] [illegible] [illegible] [illegible] [illegible] I [illegible] [illegible] [illegible] [illegible] [illegible] attempted to [illegible] [illegible] monetary policy [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] rapidly [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] reserves [illegible] [illegible] [illegible] [illegible] [illegible] to [illegible] [illegible] I think [illegible] [illegible] government [illegible]

[illegible] [illegible] [illegible] [illegible] [illegible] in view of [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] government [illegible]

Moreover, such a step would reduce the disadvantages that now accrue from a fluctuating rate because of the structural readjustments it imposes on our economy. The capital spending booms associated with the development of Canada's natural resource industries, a periodic afflication of the Canadian economy, could be moderated by some of the more direct measures described above so that many of Canada's important export and import-competing industries would not have to undergo such severe discouragement and subsequent encouragement as a result of the rise and fall in the value of the Canadian dollar. There might also be merit in a substantial increase in the level of the withholding tax on interest and dividends paid to non-residents. If this rate were raised to 20 percent or more, if it were made applicable to all interest and dividend payments and if an agreement were reached with other governments limiting the degree to which these taxes could be offset against domestic tax payments, a useful additional deterrent would be provided to the international movement of funds.

24. In suggesting a rate of 95¢ U.S. to $1 Canadian I do not do so after any detailed examination of the evidence. However, I would like to draw the Commission's attention to the following evidence that the level of domestic costs and prices has risen appreciably more in Canada over the past ten years than it has in the United States. Thus, the data in Table 4 show that the average implicit price index of the domestic portion of gross national product increased 47 percent between 1949 and 1960 in Canada compared with only 31 percent in the United States. Moreover, when a country such as Canada is

TABLE 4

Implicit Prices of Exports, Imports, Gross National Product and Domestic Product, Canada and the United States, Selected Years, 1949-1960.

	Canada			United States		
	1949	1955	1960	1949	1955	1960
Exports	100	116	122	100	109	113
Imports	100	112	120	100	122	122
G.N.P.	100	124	142	100	115	130
Domestic Product	100	126	147	100	115	131

xDomestic product is defined as gross national product excluding exports.

recovering from a rather extended period of currency over-valuation there may be need for some undervaluation of the currency to produce the required structural readjustments in the economy.

25. One of the disadvantages of a fluctuating exchange rate as experienced by Canada is that it has put her in the position of incurring a net current account deficit both in periods of prosperity and recession and thus accepting a net inflow of capital funds whether she needs it or not. For example, in the recession of 1953-54 although gross business capital formation declined by $1,350 million on a seasonally adjusted basis (at annual rates) there was only a very minor decline in the level of the current account deficit (see Table 5). Had Canada taken steps to reduce the net capital inflow and the level of the exchange rate early in 1954 her current account deficit could have been reduced substantially. It is ironic that other members of the International Monetary Fund should now be showing concern lest Canada's exchange rate policy falls into the beggar-my-neighbour category and should be pressing her to return to a fixed exchange rate, when, for a substantial part of the past ten years, her fluctuating rate has caused Canada to import unemployment and provide "community chest" contributions to her international neighbours. However, in substantial measure this loss has been a policy failure and could be avoided if a proper economic policy were followed.

26. It should be abundantly clear from the foregoing discussion that monetary policy, exchange rate policy, fiscal policy and debt management policy are closely inter-related and need to be managed in a co-ordinated manner if the best interests of the Canadian economy are to be attained. Thus, it is extremely important that there should be mutual trust and confidence between the Governor of the Bank of Canada and the government of Canada. It is abundantly clear to me that such mutual trust and confidence no longer existed by the spring of 1961 and in the circumstances the Governor of the Bank ought to have resigned. It is also clear that the ultimate responsibility for policy in these fields rests with the government and should be so recognized and accepted.

27. In order to minimize the recurrence of difficulties of this kind in the future I would suggest that the Commission give consideration to recommending:

(a) a reduction in the term of the Governor of the Bank of Canada from seven

recovering from a [illegible] may be used for [illegible] current [illegible] natural [illegible].

[illegible] One of the disadvantages of a [illegible] by Canada [illegible] in the [illegible] both [illegible] a net inflow of [illegible] the recession of 1960 [illegible] although [illegible] $1,370 million [illegible] only a very minor decline in the level of the [illegible] account [illegible] (Table 7). [illegible] level of the exchange [illegible] have been [illegible] alternatives [illegible] exchange rate policy [illegible] be pressing [illegible] return to a fixed exchange [illegible] part of the past [illegible] exchange [illegible] neighbours [illegible] failure and [illegible] monetary [illegible] they [illegible] because if the [illegible] between the [illegible] is essentially [illegible] bank [illegible] have [illegible] its policy [illegible] [illegible].

[illegible] In [illegible] the [illegible] of difficulties of this [illegible] to recommend [illegible] (1) a [illegible] in the form of [illegible] the Bank [illegible]

TABLE 5

Net Capital Inflow and Gross Private Capital Formation, Canada, by quarters, 1953 to 1955 (Seasonally adjusted totals at annual rates)

		(1) Net Capital Inflow	(2) Business Gross Capital Formation	(3) Column (2) as a Percent of Gross National Product
		(million dollars)		
1953	1.	464	5,412	21.0
	2.	488	5,424	21.8
	3.	396	5,828	23.1
	4.	424	5,660	22.4
1954	1.	460	4,948	20.2
	2.	496	4,532	18.4
	3.	380	4,476	17.9
	4.	372	4,640	18.3
1955	1.	428	4,952	19.0
	2.	384	5,208	19.3
	3.	792	5,696	20.8
	4.	1,112	6,108	21.9

Source: National Accounts: Income and Expenditure, by quarters, 1947-1957, Dominion Bureau of Statistics, Ottawa.

to five years, and

(b) the introduction of a provision such as exists in the United Kingdom whereby the government can give specific directives to the Central Bank. However, I think it would be desirable to preserve the formal independence of the Bank of Canada from the day to day operation of government affairs. Such independence helps keep the Bank from becoming involved too closely in administrative routine and gives it the opportunity to examine Canada's economic problems in the careful and detached manner which they deserve.

28. Nevertheless it is apparent from the conflicting and inept policies that have been followed in recent years that there is a need to strengthen the economic intelligence of the Bank of Canada and the government generally. To achieve this end I would suggest that the Commission give consideration to recommending the following measures:

(a) requiring at least three members of the Board of Directors of the Bank of Canada to be professionally trained economists. It might be provided that appointments to this post be made from a slate nominated by the executive of the Canadian Political Science Association.

(b) requiring all senior staff members of the Bank of Canada to take a

sabbatical year (on an average of once every 5 or 6 years) which they could spend at some major university studying the latest developments in economic theory.

(c) the formation of an economic advisory council which could advise both the government and the Bank of Canada on economic policy measures. It is clear that the cost of mistaken economic policies is extremely high. Over a few years the cost can easily run into billions of dollars. Canada cannot afford to provide for anything less than the best possible economic advice to the government in power.

29. Finally I should like to make some suggestions to the Commission (1) in respect to the competitive character of our financial institutions and (2) with regard to the effects of these institutions on the flow of savings into investment. In my view the Canadian financial arena suffers from a lack of competition in many areas and this Commission would be performing a very useful task if it would investigate and recommend ways in which competition could be increased. For example, a number of our major chartered banks now control some of our major trust companies. The effect of this can only be to reduce competition for customer deposits and in other areas. In my view such control is not in the best interests of the Canadian economy and I would recommend very strongly that our chartered banks and trust companies should be required to be completely independent in their operations. Some improvement in the present situation would be obtained by a requirement that no director of a bank, trust company or other financial institution should be a director of a competing institution. Moreover, if, as there is some reason to believe, the Combines Investigation Act does not now apply to the provision of financial services I would recommend that it be amended so that it will apply to all services. I can see no reason why agreements to maintain and fix prices which would be illegal if entered into on the part of manufacturing companies should be legal when carried on by our banks or other financial institutions. Further, in view of the relatively small number of lenders who are active in many areas of Canada, I think it would be desirable to retain the present 6 percent ceiling on the rate of interest that can be charged on bank loans. While there may be times when an interest rate above 6 percent might increase the efficiency with which scarce funds are allocated, in my view, this relatively minor advantage would be offset by the increased scope for the

sabbatical year (on an average of once every 5 or 7 years) [illegible] spend at some major university studying the latest [illegible]

(c) the formation of an economic advisory council which would advise the government and the Bank of Canada on economic policy [illegible] that the cost of mistaken economic policies is extremely high. [illegible] cases the cost can easily run into billions of dollars. [illegible] to provide for anything less than the best possible economic advice [illegible] government in power.

29. Finally I should like to make some suggestions [illegible]

(1) in respect to the restrictive character of our [illegible]

(2) with regard to the effects of these restrictions on the [illegible] investment. In my view the Canadian commercial [illegible] of competition in many areas and this [illegible] useful task if it would investigate and recommend [illegible] could be increased. For example, a number of [illegible] control some of our major [illegible] companies. The effect of this [illegible] reduce competition for customer deposits and [illegible] areas. In my view such control [illegible] interest [illegible] recommend [illegible] that our [illegible] be required to be completely independent [illegible] or the [illegible] it [illegible] would be [illegible] of [illegible] must [illegible] of a commercial institution. Moreover, [illegible] the [illegible] [illegible] I would recommend that it be extended [illegible] services. I [illegible] which would [illegible] in the case of [illegible] should be [illegible] when [illegible] our [illegible] Further, in view of the [illegible] in many areas of Canada. I think it would be desirable [illegible] 6 percent ceiling [illegible] the rate of interest [illegible] while [illegible] what an interest rate [illegible] the efficiency with which scarce funds are allocated [illegible] relatively minor attempt [illegible] would be offset [illegible] scope for [illegible]

charging of monopoly prices in areas where competition is limited.

30. As they are presently constituted many of our large financial institutions operate in such a way as to attract a large part of the savings of individuals whether in the form of amortisation payments on mortgages, premium payments on life insurance policies, contributions to pension funds or simply in the form of deposits in savings accounts and serve to channel a major portion of them along lines which (1) favour investment in bonds or other debt instruments at the expense of equities (2) favour large investors and companies at the expense of smaller firms and (3) favour investment in large communities at the expense of smaller ones. The effect of this diversion of funds may often be undesirable and I would suggest that our large financial institutions are a major drag on the proper growth and development of the Canadian economy. Moreover, these institutions are so pre-occupied with their own safety and welfare that they have shown remarkably little initiative or enterprise in trying to solve some of the problems which their own successful development has created. Further, in some degree, our large financial institutions with their conservative financial policies are responsible for the extent of foreign ownership and control that now exists in many Canadian industries. By reducing the supply of equity funds in Canada they force business firms to seek equities from sources outside the country.

31. I would suggest, therefore, that the Commission consider recommending some sweeping changes in the investment requirements now regulating these institutions. We, as Canadians, have in the past been far too security conscious and this has been at some sacrifice to our growth and development. In this area I would suggest the following proposals for investigation and possible approval:

(a) All life insurance companies operating in Canada be required to invest at least 25 percent of the reserves held against their Canadian business in equities of which at least one-third should be in companies with assets of less than $1 million.

(b) The chartered banks should be encouraged to offer to their depositors an opportunity of putting their savings into a mutual type equity savings account with the requirement that at least one-quarter of the funds so invested should be in companies with assets of less than $1 million. If necessary the government should offer to underwrite some of the risks involved in the above

two proposals in order to encourage their development and ensure the success of the operation.

(c) The banks, insurance companies and other major financial institutions should be given suitable incentives to finance and sponsor a number of investment development companies that could undertake the long-term finance of investment projects which are not able to obtain finance in Canada under existing arrangements.

(d) As part of this development our major financial institutions should greatly expand their research staffs so that they may be able to appraise areas of potential development and investment. The tax writeoff which the government permits on research expenditures should clearly apply to research in this field.

In general it is my view that far too great a part of the savings of Canadians are now tied up in bonds and mortgages and other very conservative investments. With moderate encouragement Canada could greatly increase the participation of Canadians in the ownership and development of their own country, thereby reducing our reliance on foreign sources of funds and at the same time helping to accelerate the country's growth and development. I am sure that the Commission can develop other and perhaps better methods of achieving this goal and I would recommend that they make a thorough study of this whole problem.

TABLE A1

Supporting Date for Charts 1 and 2 : Money Supply and Interest Rates, Canada, 1953-1961

		Bank Deposits and currency (excluding personal savings)	Bank Deposits and currency in hands of public	Yield on Government of Canada's $3\frac{1}{4}$'s Oct. '79
		(Percent of Gross National Product)		(yield)
1953	4.	17.6	36.8	3.76
1954	1.	18.3	38.2	3.53
	2.	18.3	38.7	3.23
	3.	18.3	38.8	3.22
	4.	18.5	39.2	3.25
1955	1.	19.1	39.7	3.20
	2.	19.2	39.6	3.16
	3.	19.4	40.0	3.23
	4.	18.8	39.3	3.34
1956	1.	17.7	37.5	3.35
	2.	17.3	36.8	3.49
	3.	16.9	36.3	3.63
	4.	16.3	35.6	3.85
1957	1.	16.2	35.7	4.03
	2.	16.1	35.7	4.07
	3.	15.8	35.3	4.28
	4.	16.1	36.0	3.97
1958	1.	16.2	36.2	3.87
	2.	16.4	36.4	3.83
	3.	17.0	37.6	4.01
	4.	17.2	38.2	4.31
1959	1.	16.8	37.8	4.54
	2.	16.2	37.1	4.82
	3.	16.0	36.7	5.10
	4.	15.6	35.8	5.20
1960	1.	15.4	35.3	5.31
	2.	15.8	36.0	5.04
	3.	15.7	35.9	4.73
	4.	15.9	36.2	5.03
1961	1.	16.7	37.9	5.10
	2.	16.7	37.6	5.09
	3.	16.9	37.4	4.91

Note: The ratios in column 1 were reduced by 4 percent beginning with the fourth quarter of 1957 to take account of a change in the designation of certain savings deposits at that time. Yields on the bond issue Oct. '79 first become available in the fourth quarter of 1954 and were projected backwards on an index of 20 year theoreticals. Ratios for money supply and gross national product were calculated from seasonally adjusted data.

Source: Statistical Summary: Bank of Canada.

TABLE A2

Supporting Data for Charts 3 and 4 : Money Supply and Interest Rates, United States, 1953-1961

		Demand deposits and currency in hands of public	All bank deposits and currency in hands of public	Yield on U.S. governments $3\frac{1}{4}$'s '78-83
		(Percent of Gross National Product)		
1953	3.	34.6	46.4	3.23
	4.	35.3	47.5	3.02
1954	1.	35.7	48.4	2.82
	2.	35.9	48.7	2.70
	3.	35.9	49.2	2.61
	4.	35.4	48.5	2.66
1955	1.	34.6	47.3	2.82
	2.	34.0	46.6	2.86
	3.	33.3	45.7	2.96
	4.	32.9	45.2	2.93
1956	1.	32.9	45.2	2.92
	2.	32.7	44.9	3.03
	3.	32.2	44.5	3.16
	4.	31.6	43.7	3.31
1957	1.	31.1	43.3	3.31
	2.	30.8	43.3	3.45
	3.	30.4	43.0	3.64
	4.	30.7	43.6	3.49
1958	1.	31.4	45.1	3.25
	2.	31.4	45.8	3.15
	3.	31.0	45.6	3.55
	4.	30.5	44.6	3.75
1959	1.	30.0	44.0	3.90
	2.	29.2	43.0	4.03
	3.	29.6	43.7	4.10
	4.	29.1	42.9	4.12
1960	1.	28.1	41.5	4.25
	2.	27.7	41.1	4.10
	3.	27.7	41.6	3.76
	4.	27.8	42.1	3.86
1961	1.	28.2	43.1	3.81
	2.	27.5	42.7	3.81
	3.	27.0	42.4	3.99

Source: Federal Reserve Bulletin and Statistical Summary: Bank of Canada.